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BEHAVIOUR OF THE
PERSONAL INCOME TAX IN ONTARIO
FROM 1976 TO 1977

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ONTARIO TAX STUDIES 12C

BEHAVIOUR OF THE
PERSONAL INCOME TAX IN ONTARIO
FROM 1976 TO 1977

MINISTRY OF TREASURY AND ECONOMICS
TAXATION AND FISCAL POLICY BRANCH

PREFACE

In 1976, the Ministry of Treasury, Economics and Intergovernmental Affairs released the 12th study in the series of Ontario Tax Studies, Major Growth Characteristics of the Personal Income Tax in Ontario: 1972-74, which presented, for the first time, basic personal income tax data on the first three years of tax reform, 1972-74. As an ongoing exercise, this paper would be updated as more recent data became available. The first revision of the study was completed in 1977 when 1975 data became available. The following year, the study was updated again to incorporate 1976 tax data. With 1977 data available, the third revision of this study has been completed.

The structural format of this third update is similar to the original. The revised paper highlights, for the most part, only the changes from 1976 to 1977. The chapter on Ontario Tax Credits, it should be noted, has in the past been given more detailed treatment in Ontario Tax Studies 14, Reductions in Tax Burdens through Tax Credits: Ontario's Experience.

As part of the Ontario Treasury's policy of monitoring personal income tax, the paper examines, for the first time, the income distribution of taxfilers in Northern and Southern Ontario. Data on these subjects were analyzed for the period from 1973 to 1977.

This paper was prepared in the Taxation and Fiscal Policy Branch by John Whitehead and Chris Goethel. The project was supervised by Harry Newton, with technical assistance from Joe La Ferla.



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TABLE OF CONTENTS

	<u>Page</u>
Introduction:	11
Chapter 1: Major Growth Characteristics - 1976 and 1977.....	13
Chapter 2: The Changing Structure of the Personal Income Tax.....	21
Chapter 3: Effective Personal Income Tax Rates in Ontario.....	27
Chapter 4: Employment Income.....	30
Chapter 5: Investment Income.....	35
Chapter 6: Tax Deferral Mechanisms.....	46
Chapter 7: Women in the Tax System.....	52
Chapter 8: Pensioners in the Tax System: 1976 - 1977.....	64
Chapter 9: The Ontario Tax Credit System.....	75
Chapter 10: A Comparison of Northern and Southern Ontario.....	78

LIST OF TABLES

	<u>Page</u>
1-1 Income Reported in Ontario for Income Tax Purposes.....	14
1-2 Deductions and Exemptions Claimed in Ontario for Income Tax Purposes.....	17
1-3 Total Tax Payable in Ontario.....	19
1-4 Share of Canadian Personal Income Tax Generated in Ontario....	20
2-1 Income Distribution of Income Tax in Ontario.....	23
2-2 Distribution of Average Tax Payable in Ontario.....	24
2-3 Percentage Change in Numbers of Taxfilers By Income Class.....	25
2-4:.....	25
3-1 Total Income Reported for Tax Purposes in Ontario.....	27
3-2 Effective Income Tax Rates in Ontario.....	28
3-3 Effective Ontario Personal Income Tax Rates Before and After Tax Credits.....	29
4-1 Composition of Employment Income.....	30
4-2 Distribution of Employment Earnings by Income Class.....	31
4-3 Distribution of Taxable UIC Benefits by Income Class.....	32
4-4 Distribution of UIC Contributions by Income Class.....	33
4-5 Distribution of Taxable UIC Benefits by Sex and Marital Status.....	34
5-1 Major Sources of Investment Income Reported for Income Tax Purposes.....	35
5-2 Interest Income Reported for Tax Purposes.....	35
5-3 Distribution of Bank Interest by Income Class.....	37
5-4 Distribution of Mortgage Interest by Income Class.....	38
5-5 Distribution of Bond Interest by Income Class.....	39
5-6 Distribution of Dividends from Taxable Canadian Corporations by Income Class.....	41
5-7 Distribution of Dividend Tax Credit by Income Class.....	42
5-8 Transactions Resulting in Capital Gains.....	44
5-9 Capital Gains Reported on Canadian and Other Investments, 1977.....	44
5-10 Distribution of Taxable Capital Gains by Income Class.....	45
6-1 Taxfilers Contributing to Pension Plans.....	46
6-2 Distribution of CPP, RPP, and RRSP Contributions by Income Class, 1977.....	51
6-3 Distribution of RHOSP Contributions by Income Class.....	48
6-4 Tax Savings Resulting from Contributions to Pension and Savings Plans, 1976 and 1977.....	50

LIST OF TABLES (CONTINUED)

	<u>Page</u>
7-1 Ontario's Taxfiling Population by Sex.....	52
7-2 Income Distribution of Taxfilers by Sex.....	54
7-3 Occupation of Taxfilers by Sex.....	56
7-4 Average Income of Taxfilers by Sex.....	58
7-5 Women Taxfilers by Marital Status.....	59
7-6 Alimony Payments to Women Taxfilers.....	59
7-7 Women Taxfilers Reporting Employment Income by Marital Status.	60
7-8 Income of Women Taxfilers by Marital Status.....	61
7-9 Income Distribution of Working Mothers Claiming Child Care Expenses.....	62
8-1 Age Distribution of Taxfilers.....	64
8-2 Income Distribution of Pensioners.....	65
8-3 Average Income of Pensioners.....	66
8-4 Employment Income.....	67
8-5 UIC Benefits.....	68
8-6 OAS Benefits.....	69
8-7 Private Pension Income.....	69
8-8 CPP Benefits.....	70
8-9 Investment Income.....	71
8-10 Income From Capital Gains.....	72
8-11 Tax Payable by Taxfilers.....	73
9-1 Ontario Tax Credit Structure.....	75
9-2 Value of Tax Credits in Ontario.....	75
9-3 Distribution of Ontario Tax Credits by Income Class.....	76
9-4 Distribution of Ontario Tax Credits by Value of Credit.....	77
10-1 Distribution of Ontario's Taxfiling Population by Region.....	79
10-2 Number of Taxfilers by Region and Income Class.....	79
10-3 Distribution of Tax Credits.....	80
10-4 Average Occupancy Cost.....	81

INTRODUCTION

In 1977, Canada was in a period of slow economic growth. The Gross National Product increased by 2.7 per cent in real terms, which contrasted with a 5.5 per cent increase in 1976.¹ Unemployment and inflation were also on the increase. The seasonally adjusted unemployment rate rose by 1 percentage point in 1977 to 8.1 per cent. The Consumer Price Index, after having increased by 7.5 per cent in 1976, rose by 8.0 per cent in 1977.

The combination of these economic conditions significantly influenced the themes of the 1977 federal and Ontario budgets. The 1977 federal budget listed as one of its major objectives the curbing of inflation while maintaining the real growth of the economy in order to ameliorate the worsening unemployment situation.

To this end, several changes were made to the structure of the personal income tax. The Minister of Finance felt that these changes would increase the disposable income of Canadians, and make investment opportunities more attractive. For example, changes were made to the Federal Tax Reduction, the Employment Expense Deduction, and the Dividend Tax Credit.

In light of these changing conditions, the behaviour of the personal income tax in Ontario was affected. This paper provides information on the growth characteristics of the personal income tax in Ontario between 1976 and 1977.

The first chapter gives an overview of the relative importance and growth of various sources of income and the extent to which available tax deductions have been utilized. The next two chapters examine the structure and incidence of the personal income tax and effective tax rates by income class.

1. Bank of Canada Review, September 1978 p. 15

The remaining chapters highlight specific aspects of the personal income tax system in Ontario. Chapter 4 discusses the growth and distribution of employment income - the largest single component of the tax base. Chapter 5 examines the preferential tax treatment accorded to income from capital gains, dividends, and interest. Tax deferral mechanisms, used to encourage savings among taxpayers, are analyzed in Chapter 6. Chapter 7 deals with the special role of women in the tax system. Chapter 8 discusses the position of pensioners with respect to the tax system. In Chapter 9, the Ontario tax credit system is examined, and, finally, in recognition of the economic differences between Northern and Southern Ontario, Chapter 10 analyzes the income distribution and the impact of the tax system on the residents of the two areas.

CHAPTER 1: MAJOR GROWTH CHARACTERISTICS - 1976 AND 1977

This chapter examines the major sources of income reported for tax purposes and the principal tax deductions claimed in Ontario in 1976 and 1977.

GROWTH IN TAX RETURNS

Table 1-1 shows that both the total number of tax returns and the number of taxable returns filed increased from 1976 to 1977 by 1.7 and 1.4 per cent respectively. The lower growth in taxable returns is likely attributable to the fact that in 1977, although there was a general increase in the incomes and number of taxfilers, the tax which they were liable to pay had decreased. As shown in Chapter 3 (Table 3-2), the proportion of total income paid in tax by Ontario taxpayers, on average, fell from 15.3 per cent in 1976 to 14.8 per cent in 1977 as a result of the expansion of credits and deductions, and the further indexation of brackets and exemptions. In addition, in 1977, taxfilers made wider use of the tax reduction measures available to them.

GROWTH IN INCOME

Table 1-1 shows the magnitudes and growth of the various sources of income reported for tax purposes. Employment earnings continued to be the major source of income in the province, although their importance has declined in the last few years. In 1972, employment earnings constituted 81.2 per cent of total income reported, but by 1977, this figure had declined to 78.3 per cent. Investment income and pension income were the next most important sources. These sources have displayed an ever-growing increase in their importance with respect to other components of total income. In 1972, investment and pension income accounted for 9.9 per cent of total income. By 1977, they represented 12.2 per cent. All other major sources of reported income exhibited growth between 1976 and 1977, with the exception of net farming and fishing income which declined by 9.2 per cent, and other investment income which declined by 11.4 per cent. In 1977, farming and fishing income only accounted for \$225 million, or 0.4 per cent of total income reported. This amount had a minimal impact on the tax base.

INCOME REPORTED IN ONTARIO FOR
INCOME TAX PURPOSES

TABLE 1-1

	1976	1977	Per Cent Change 1976/77
TAX RETURNS			
Number of Returns (000)	4,912	4,995	1.7
Number of Taxable Returns (000)	3,303	3,348	1.4
INCOME SOURCES (\$ million)			
Total Employment Earnings ¹	39,412	43,347	9.9
Total Unemployment Insurance Benefits	874	939	7.4
Pension Income:			
- Old Age Security Payments	1,010	1,087	7.6
- Private Pension Benefits	961	1,095	13.9
- CPP/QPP Benefits	376	462	22.8
Sub-Total	2,347	2,644	12.6
Family Allowances	655	700	12.6
Net Business Income	1,107	1,189	7.4
Net Professional Income	1,143	1,223	6.9
Net Farming and Fishing Income	248	225	-9.2
Investment Income:			
- Taxable Capital Gains	159	208	31.0
- Taxable Dividends	671	747	11.3
- Bond Interest	427	446	4.2
- Bank Interest	1,743	1,996	14.4
- Mortgage Interest	422	407	3.8
- Other ²	352	313	-11.4
Sub-Total	3,774	4,112	8.9
Other Sources of Income ³	808	961	18.9
Total Income ⁴	50,370	55,348	9.9

1. Total Employment Earnings includes wages and salaries, commissions from employment, taxable allowances, adult training allowances, tips and gratuities, and net research grants.

2. Other Investment Income includes income from trusts, annuity income, other Canadian investment income and foreign investment income.

3. Other sources of income includes net commissions from self-employment, net rental income, scholarships and bursaries, alimony and miscellaneous.

4. Totals may not add due to rounding.

A substantial part of the 9.9 per cent increase in total income from 1976 to 1977 was accounted for by the growth in employment income, which constituted 80 per cent of the rise in total income. In 1977, although the number of taxfilers reporting employment earnings increased by only 1.1 per cent, total employment earnings rose by 9.9 per cent. This growth in employment earnings was due in large part to inflationary pressures as workers sought to maintain the purchasing power of their income, notwithstanding the constraints imposed by the Anti-Inflation Board.

The rapid growth in investment income experienced in preceding years was less evident in 1976 and 1977. Whereas investment income rose by 15.7 per cent in 1976, it increased by only 8.9 per cent in 1977.

Of all investment income sources, taxable capital gains increased the most. Between 1976 and 1977, income from this source increased by 31.0 per cent, while all other forms of investment income showed gains of less than 14.5 per cent.

The growth in pension income between 1976 and 1977 was considerably less than in previous years. While Old Age Security and private pension benefits increased less between 1976 and 1977, (7.6 per cent and 13.9 per cent respectively, as compared to 16.6 per cent and 15.1 per cent between 1975 and 1976) the most dramatic decrease in growth was in the CPP/QPP benefits. In the four years between 1972 and 1976 CPP/QPP benefits increased by an average 46.9 per cent per year. This high growth rate was due to the maturing of the Canada Pension Plan which began in 1966. In order to be eligible for full benefits, employees must have contributed for at least 120 months to the plan. Prior to the end of the first 120 month period, which occurred on December 31, 1975, people who turned 65 could not claim a full pension since they had not worked the full period since the plan's inception. Partial, but increasing maximum benefits were payable, however, as the plan progressed. Thus in 1977, the second year in which individuals could collect full benefits, the growth rate fell off to 22.8 per cent. It is expected that this growth rate will continue to diminish as more pensioners become eligible for full benefits.

Income reported by self-employed professionals and businessmen increased by 6.9 per cent from 1976 to 1977. This increase was somewhat lower than that recorded for the same time period by most other income sources. In 1976, business and professionals income, as a percentage of total income, was below the percentages recorded over the 1972 to 1974 period. From 1972 to 1975, this source accounted for between 4.9 per cent and 5.2 per cent of total income. By 1977, the proportion had declined to 2.2 per cent.

The 9.2 per cent decrease in net farming and fishing income in 1977 can be explained primarily by a drop in the price index for Canadian farm products.

Total income per taxfiler increased by 8.1 per cent from \$10,255 in 1976 to \$11,081 in 1977, while total income increased by 9.9 per cent.

GROWTH IN DEDUCTIONS

Table 1-2 shows the major exemptions and deductions claimed by Ontario taxfilers in 1976 and 1977. As would be expected, the general exemptions and deductions are by far the most significant in terms of offsets against income. However, despite the overriding significance of these general exemptions (basic personal, married, etc.) in reducing income brought to tax, they declined as a proportion of total deductions, from 68.6 per cent in 1976 to 68.0 per cent in 1977. Notably, the growth in general deductions was dominated by the increase in the general employment expense of 54.2 per cent between 1976 and 1977. This increase is due to a change in federal legislation which allowed the maximum deduction for general employment expenses to rise from \$150 in 1976 to \$250 in 1977.

Optional deductions, which are claimed by taxpayers incurring particular kinds of expenditures or contributions, have been increasing steadily over the last few years. In 1972, they accounted for 9.6 per cent of total deductions; by 1977, that percentage had doubled to 19.5 per cent. The introduction of new or expanded deductions each year is the major reason for this growth. Taking into account only

DEDUCTIONS AND EXEMPTIONS CLAIMED IN ONTARIO
FOR INCOME TAX PURPOSES

TABLE 1-2

	1976	1977	Per Cent Increase 1976/77
TAX RETURNS			
Number of Returns (000)	4,912	4,995	1.7
Number of Taxable Returns (000)	3,303	3,348	1.4
DEDUCTION COMPONENTS (\$ million)			
General Exemptions:			
- Basic Personal	10,220	11,299	10.5
- Married or Equivalent	1,770	1,919	8.4
- Dependants	1,180	1,290	9.3
- Aged and Disability ¹	898	993	10.5
Sub-Total	14,068	15,501	10.1
General Deductions:			
- Standard Deduction	436	441	1.1
- CPP Contributions	411	461	12.1
- UIC Contributions	419	424	1.2
- General Employment Expense (3%)	485	748	54.2*
Sub-Total	1,751	2,074	18.4
Optional Deductions:			
- Itemized Employment Expense	223	244	9.4
- RPP Contributions	730	824	12.8
- RRSP Contributions	849	979	15.3
- RHOSP Contributions	185	194	4.8
- Union and Professional Dues	162	179	10.4
- Medical Expenses	64	64	0.0
- Charitable Donations	272	301	10.6
- Education Deduction ²	90	78	-13.3
- Interest and Dividend Deduction	1,049	1,119	6.7
- Pension Deduction	289	301	4.1
- Deductions Transferred from Spouse ³	124	167	34.6
Sub-Total	4,037	4,450	10.2
Other Deductions ⁴	660	757	14.7
Total Deductions	20,516	22,782	11.0

1. Figures include disability deduction transferred from spouse.

2. Figures include education deduction transferred from spouse.

3. Deductions transferred from spouse include age exemption, investment income deduction, and pension income deduction.

4. Other deductions include tuition fees, child care expenses, carrying charges, moving expenses, alimony paid and income averaging annuity premiums, plus some small miscellaneous deductions.

*1977 federal budget change allowing general employment expense to rise from maximum of \$150 to maximum \$250.

six optional deductions (itemized employment expense, RPP contributions, RRSP contributions, union and professional dues, medical expenses and charitable donations), their growth in 1976 was 23.9 per cent and in 1977, 12.7 per cent. In 1977, the interest deduction was expanded to include taxable capital gains.

In 1977, there was a decline in the growth rate of RHOSP contributions to 4.8 per cent from the 1976 growth of 35.0 per cent. This is the result of the closing of certain loopholes, which formerly allowed contributions for purposes other than the purchase of an owner-occupied home. As Table 1-2 shows, however, RPP and RRSP contributions maintained a good growth rate, increasing by 12.8 per cent and 15.3 per cent respectively.

GROWTH IN TAX PAYABLE

As a result of the changes in federal-provincial tax sharing which became effective in 1977 federal tax payable in Ontario, as shown in Table 1-3, dropped by 4.4 per cent, while Ontario tax payable rose by 52.6 per cent. An outline of these new fiscal arrangements is presented in Chapter 2.

ONTARIO-CANADA COMPARISON

Table 1-4 indicates that a large proportion of income tax revenue collected in Canada is generated in Ontario. In 1976 and 1977, Ontario accounted for about 39.6 per cent of total income reported in Canada and about 40 per cent of taxable income, while having only 35.9 per cent of the total population and 39.7 per cent of tax returns.

Since 1972, Ontario's proportion of total income, total taxable income and total federal tax payable within Canada has been declining. In addition, in 1977, Ontario's proportion of population and number of tax returns within Canada also declined. This trend is a result of faster growth in the economics of British Columbia and Alberta in the last few years.

TOTAL TAX PAYABLE IN ONTARIO
(\$ million)

TABLE 1-3

	1976	1977	Per Cent Change 1976/77
Taxable Income	31,439	34,349	9.3
Basic Federal Tax ¹	6,717	6,684	-0.5
Provincial Income Tax ²	2,045	2,911	42.3
Tax Offsets			
Federal: Dividend Tax Credit ¹	125	132	5.6
Foreign Tax Credit ³	29	32	10.3
Federal Tax Reduction ⁴	788	916	16.2
Ontario: Foreign Tax Credit ³	5	8	60.0
Ontario Tax Reduction ⁵	13	20	53.8
Ontario Tax Credits	420	432	2.9
Federal Tax Payable ⁶	5,995	5,734	-4.4
Ontario Tax Payable ⁷	1,625	2,479	52.6
Total Tax Payable	7,620	8,213	7.8

1. Basic federal tax is net of dividend tax credit and any tax adjustments. The dividend tax credit is not refundable.
2. The provincial income tax rate in 1976 was 30.5 per cent of basic federal tax, 44 per cent in 1977. Provincial income tax is net of the Ontario foreign tax credit and the Ontario Tax Reduction.
3. Foreign tax credits are not refundable.
4. The federal tax reduction effective in 1976 was 8 per cent of basic federal tax (minimum reduction \$200, maximum \$500). In 1977, the reduction was increased to 9 per cent with all other parameters unchanged. If basic federal tax is less than \$200, the tax reduction is the amount of basic federal tax.
5. Provincial tax payable has been reduced by the Ontario Provincial Tax Reduction. In 1976, if the taxable income was less than \$1,540 no Ontario Provincial Income Tax was payable. In 1977, this amount was increased to \$1,680.
6. Federal tax payable includes 1976 surtax and all federal tax reductions and tax credits.
7. Ontario tax payable is net of Ontario Tax Credits, the Ontario Tax Reduction, and the foreign tax credit.

NOTE: For details of the changes in federal-provincial tax sharing see Chapter 2.

SHARE OF CANADIAN PERSONAL INCOME TAX GENERATED IN ONTARIO					TABLE 1-4	
	1976		1977			
	Ontario	Canada	Ontario as a Per Cent of Canada		Ontario as a Per Cent of Canada	
			Ontario	Canada		
*Population (000)	8,331	23,110	36.1	8,374	23,291	35.9
Number of Tax Returns (000)	4,912	12,343	39.8	4,995	12,586	39.7
Total Income (\$ Million)	50,370	127,295	39.6	55,348	139,879	39.6
Total Deductions (\$ Million) And Exemptions	20,516	51,992	39.5	22,782	57,564	39.6
Total Taxable Income (\$ Million)	31,439	78,627	40.0	34,349	85,971	40.0
Total Federal Tax Payable (\$ Million)	5,995	13,808	43.4	5,734	13,458	42.6

*1977 Population statistics are estimated - Source: Statistics Canada Catalogue No. 91-201

Tax data for Canada were obtained from Taxation Statistics, Revenue Canada.

CHAPTER 2: THE CHANGING STRUCTURE OF THE PERSONAL INCOME TAX

Regardless of the fact that the personal income tax is extremely responsive to variations in income, total income rose faster than total tax payable in 1977. This is the second year running that this situation has prevailed, and is due largely to the further indexing of brackets and exemptions (by 8.6 per cent in 1977). Between 1976 and 1977 total income increased by 9.9 per cent, while tax payable increased by 7.7 per cent.

The tax system was modified in several important ways in 1977. The most visible change involved a major shift in the fiscal arrangements between the provinces and the federal government, whereby 9.143 points of income tax were transferred from the federal government to the provinces. Under the new arrangements, the federal tax base was reduced to 90.857 per cent of the level that would have been generated had the tax transfer not taken place. This reduction was accomplished by lowering the federal marginal tax rates. The Ontario rate was increased from 30.5 to 44 per cent of the Basic Federal Tax.* The intended net impact of the transfer was that total income tax payable remain unchanged. However, in practice, tax rates were not rounded consistently resulting in a minor increase in total tax payable.

At the federal level, changes were made which affected capital gains, the Federal Tax Reduction, the Employment Expense Deduction, and the Dividend Tax Credit. As an incentive to investment, regulations governing capital gains and losses were altered in 1977 such that capital losses could be offset against up to \$2,000 of other income--an increase of \$1,000 over the 1976 ceiling. Capital gains realized on the sale of Canadian securities were made eligible for inclusion in the \$1,000 deduction for interest and dividend income. In recognition of the rising expenses of employees, the ceiling on the Employment Expense Deduction was raised in 1977 from \$150 to \$250. The Dividend Tax Credit was enriched as a result

*For details of this change in federal-provincial fiscal arrangements consult the 1977 Ontario Budget: Budget Statement p. 15, and Budget Paper B, p. 13.

of the new fiscal arrangements. While the federal tax rates declined by 9.143 per cent in 1977, the associated drop in the Dividend Tax Credit was only 6.25 per cent, from 80 per cent to 75 per cent of taxable Canadian dividends. Finally, the Federal Tax Reduction was enriched from the 1976 level of 8 per cent to 9 per cent in 1977. In addition, there was included in this reduction a provision for an extra credit of \$50 for each dependent child under 18 years of age. However, the maximum reduction remained at \$500. These federal changes were designed as a stimulus to the sluggish economy.

A further modification to the Ontario personal income tax came in the form of an increase in the taxable income ceiling for the Ontario Tax Reduction from \$1,540 to \$1,680 in 1977. This move was designed to ensure that the majority of taxfilers who were not liable to pay federal tax would not be liable to pay Ontario tax.

As a result of the significant alterations in federal-provincial fiscal arrangements, a comparison of provincial taxes in 1976 and 1977 is highly misleading unless one considers the total tax payable in Ontario. As Table 2-1 shows, federal tax payable declined by 4.4 per cent while Ontario tax payable increased by 52.6 per cent.

INCOME DISTRIBUTION OF INCOME TAX IN ONTARIO

TABLE 2-1

Income Class	Number of Taxfilers	Federal Tax Payable	Ontario Tax Payable	Total Tax Payable
(\$000)	(000)	(\$M)	(\$M)	(\$M)
<u>1976</u>				
Under 5	1,588	12	-174	-162
5 - 10	1,247	564	108	672
10 - 12	427	459	129	588
12 - 15	570	886	266	1,152
15 - 20	590	1,342	426	1,768
20 - 25	248	817	269	1,086
25 - 35	159	760	252	1,012
35 - 50	51	405	130	535
50 - 75	21	298	90	388
75+	12	451	130	581
TOTAL	4,912	5,995	1,625	7,620

<u>1977</u>				
Under 5	1,521	4	-179	-175
5 - 10	1,180	407	139	546
10 - 12	411	357	159	516
12 - 15	542	686	314	1,000
15 - 20	702	1,347	644	1,991
20 - 25	324	914	447	1,361
25 - 35	210	869	423	1,292
35 - 50	64	441	208	649
50 - 75	24	298	137	435
75+	12	412	185	597
TOTAL	4,995	5,734	2,479	8,213

1. Federal Tax Payable includes the effect of the applicable Federal Tax Reduction and, in 1976, the Federal Surtax.
2. Ontario Tax Payable includes the effect of the Ontario Tax Credit System and Ontario Tax Reduction.

NOTE: The taxable income ceiling for the Ontario Tax Reduction was raised in 1977 to \$1,680 from \$1,540.

DISTRIBUTION OF INCOME TAX PAYABLE IN ONTARIO

The distribution of the total tax payable by income class in Ontario is shown in Table 2-1, where total tax payable is shown to have increased by 7.7 per cent. However, when examining average total tax payable, (Table 2-2), a different picture emerges.

DISTRIBUTION OF AVERAGE TAX PAYABLE IN ONTARIO			TABLE 2-2
Income Class	Average Total Tax Payable 1976	Average Total Tax Payable 1977	Per Cent Change 1976/77
(\$000)	(\$)	(\$)	(%)
Under 5	-102	-115	-12.7
5-10	539	461	-14.5
10-12	1,377	1,253	- 9.0
12-15	2,021	1,843	- 8.8
15-20	2,996	2,833	- 4.4
20-25	4,375	4,197	- 4.1
25-35	6,364	6,147	- 3.4
35-50	10,490	10,140	- 3.3
50-75	18,476	18,083	- 2.1
75+	48,416	49,666	0.5
Overall Average	1,551	1,645	6.0

Table 2-2 shows that average total tax payable, while increasing by 6.0 per cent overall, was lower in all income classes except the above \$75,000 income class, which recorded only a 0.5 per cent increase. This apparent inconsistency can be explained by the absolute growth in the number of taxfilers and by the movement of taxfilers from the lower income classes to the middle income classes. Table 2-3 details this movement of taxfilers. Specifically, there was an average 24.0 per cent increase in the \$15,000 to \$50,000 income classes, while all income groups under the \$15,000 level experienced an average decline of 4.6 per cent. Thus, the heavier concentration of taxfilers in higher income groups in 1977 produced the higher average total tax payable.

PERCENTAGE CHANGE IN NUMBERS OF TAXFILERS
BY INCOME CLASS

TABLE 2-3

Income Class	Number		Per Cent Change 1976/77
	1976	1977	
(\$000)	(000)	(000)	(%)
Under 5	1,588	1,521	-4.2
5 - 10	1,247	1,180	-5.3
10 - 12	427	411	-3.7
12 - 15	570	542	-4.9
15 - 20	590	702	19.0
20 - 25	248	324	30.1
25 - 35	159	210	32.0
35 - 50	51	64	25.5
50 - 75	21	24	14.3
75+	12	12	-
TOTAL	4,912	4,995	1.7

COMPARISON OF REVENUE YIELDS IN THE ABSENCE OF THE
1977 FISCAL ARRANGEMENTS

Table 2-1 indicates a significant rise in the amount of Ontario tax payable between 1976 and 1977. Table 2-4 shows what would have happened had there been no change in the federal-provincial tax sharing agreements.

TABLE 2-4

	Basic Federal Tax	Basic Ontario Tax	Ontario ³ Tax Payable
	(\$M)	(\$M)	(\$M)
1976 (actual)	6,717	2,049	1,626
1977 (pre transfer)	7,357 ¹	2,244 ²	1,786 ⁴
Per cent change (pre transfer)	9.5	9.5	9.8
1977 (actual)	6,684	2,941 ⁵	2,479

1. Calculated by grossing up 1977 actual basic federal tax as if the 9.143 tax points had not been transferred ($6,684 \div .90857 = 7,357$).
2. Calculated at 30.5 per cent of basic federal tax.
3. Ontario tax payable calculated as basic Ontario tax less (Ontario Tax Reduction + Ontario Tax Credits + Ontario Foreign Tax Credit).
4. 1977 actual figures were used for Ontario Tax Credits, Ontario Tax Reduction, and Ontario Foreign Tax Credit.
5. Calculated at 44 per cent of basic federal tax.

Thus, it is clear that the new fiscal arrangements resulted in a redistribution of tax capacities between the provinces and the federal government, not an increase in the tax burden.

CHAPTER 3: EFFECTIVE PERSONAL INCOME TAX RATES IN ONTARIO

This chapter analyzes effective personal income tax rates under the Ontario income tax system.

Table 3-1 shows the distribution of total income reported for tax purposes in 1976 and 1977. The drop in total income in the under \$12,000 income classes reflects the 4.6 per cent decline in the number of taxfilers in those classes. On the other hand, the increases in total income reported by all income classes above \$12,000 were due to increases in the number of taxfilers in those classes. The influx of more taxfilers, and the demographic shift of taxfilers into higher income classes led to an overall 1.7 per cent increase in the number of taxfilers and a 9.9 per cent increase in the total income reported for tax purposes.

TOTAL INCOME REPORTED FOR TAX
PURPOSES IN ONTARIO

TABLE 3-1

Income Class	1976		1977	
	Number of Taxfilers	Total Income	Number of Taxfilers	Total Income
(\$000)	(000)	(\$M)	(000)	(\$M)
Under 5	1,588	3,850	1,521	3,726
5 - 10	1,247	9,270	1,180	8,840
10 - 12	427	4,694	411	4,511
12 - 15	570	7,671	542	7,306
15 - 20	590	10,126	702	12,098
20 - 25	248	5,492	324	7,183
25 - 35	159	4,549	210	6,058
35 - 50	51	2,060	64	2,595
50 - 75	21	1,231	24	1,454
75+	12	1,427	12	1,572
Total	4,912	50,370	4,995	55,348
Average Income	-	\$10,255	-	\$11,080

The continuing upward trend of income distribution in Ontario can be seen clearly in Table 3-1. The largest increases in taxfilers occurred in the \$20,000 and \$35,000 income range. The \$20,000 - \$25,000

income class experienced a 30.6 per cent increase in the number of taxfilers and a 30.8 per cent increase in total income, while the \$25,000 - \$35,000 income class had a 32.1 per cent increase in taxfilers and a 33.1 per cent increase in total income. Together these classes represented 10.7 per cent of all taxfilers in 1977. A comparison of the distribution of taxfilers with incomes above \$15,000 in 1976 and 1977 indicates that there was an increase in this range from 22.0 per cent of all taxfilers in 1976 to 26.7 per cent in 1977.

These increases in personal incomes reflect both real growth resulting from increased productivity and nominal growth resulting from inflation. They also highlight the importance of recognizing the dynamic nature of income taxation and emphasizes the need for a periodic revaluation of what is defined as "low income".

Table 3-2 shows the effective tax rates of both the federal and Ontario personal income tax systems. It should be pointed out that the 1977 federal and Ontario tax rates reflect the tax transfer contained in the new federal-provincial fiscal arrangements. However, the effective combined tax rates, as indicated by the table, have declined for all income classes largely due to the effects of indexing, but also due to the expansion of deductions and credits available to taxpayers.

EFFECTIVE INCOME TAX RATES IN ONTARIO ¹ (per cent)					TABLE 3-2	
Income Class (\$000)	Federal		Ontario ²		Combined	
	1976	1977	1976	1977	1976	1977
Under 5	0.3	0.1	-4.5	-4.8	-4.2	-4.7
5 - 10	6.1	4.6	1.2	1.5	7.2	6.1
10 - 12	9.8	7.9	2.7	3.5	12.5	11.4
12 - 15	11.5	9.3	3.5	4.3	15.0	13.6
15 - 20	13.3	11.1	4.2	5.3	17.5	16.4
20 - 25	14.9	12.7	4.9	6.2	19.8	18.9
25 - 35	16.7	14.3	5.5	6.9	22.2	21.3
35 - 50	19.6	17.0	6.3	8.0	25.9	25.0
50 - 75	24.2	20.5	7.3	9.4	31.5	29.9
75+	31.6	26.2	9.1	11.7	40.7	37.9
Average	11.9	10.3	3.2	4.4	15.3	14.8

¹The effective tax rate for each income bracket is calculated as total income tax paid divided by total income reported.

²Ontario tax rates include the effect of the Ontario Tax Credit.

The impact of the Ontario tax credit program on effective tax rates is presented in Table 3-3. The Ontario tax credits are concentrated in the lower income ranges and disappear entirely above \$20,000 income for all but a few taxfilers. Clearly, the progressivity of the Ontario income tax system has been greatly enhanced by this program.

EFFECTIVE ONTARIO PERSONAL INCOME TAX RATES
BEFORE AND AFTER TAX CREDITS (per cent)

TABLE 3-3

Income Class	Before Tax Credits		After Tax Credits	
	1976	1977	1976	1977
(\$000)				
Under 5	0.3	0.2	-4.5	-4.8
5 - 10	2.6	3.0	1.2	1.5
10 - 12	3.5	4.3	2.7	3.5
12 - 15	4.0	4.8	3.5	4.3
15 - 20	4.4	5.5	4.2	5.3
20 - 25	4.9	6.2	4.9	6.2
25 - 35	5.5	6.9	5.5	6.9
35 - 50	6.3	8.0	6.3	8.0
50 - 75	7.3	9.4	7.3	9.4
75+	9.1	11.7	9.1	11.7

CHAPTER 4: EMPLOYMENT INCOME

Income from employment is by far the most important income source in Ontario. Table 4-1 shows the major sources of employment earnings.

COMPOSITION OF EMPLOYMENT INCOME (\$million)			TABLE 4-1
	1976	1977	Per Cent Increase 76/77
Wages and salaries	37,985	41,768	9.9
Commissions from employment	801	869	8.4
Taxable allowances	561	636	13.3
Other	65	74	15.6
TOTAL	39,412	43,347	9.9

Table 4-2 indicates that, in 1977, 3,916,000 taxfilers, or 78.3 per cent of all taxfilers, reported income from employment. The total value of employment income reported was \$43.3 billion which is equivalent to 78.3 per cent of all income reported for tax purposes. Average employment income reported in 1977 was \$11,069, an 8.8 per cent increase over 1976. Over the past few years, because of the stronger growth of total income from non-employment sources and the number of taxfilers reporting non-employment income, the share of total income accounted for by employment earnings has been declining. In 1972, the proportion was 81.2 per cent but by 1975 it had declined to 77.6 per cent. In 1976 this figure rose to 78.3 per cent suggesting a stabilization in the trend, and the 1977 figure of 78.3 per cent seems to support this.

Table 4-2 also illustrates the distribution of earnings from employment by income class. In 1976, the highest concentration of taxfilers reporting income from employment was in the \$10,000 to \$35,000 range. This continued to be the case in 1977. Between 1976 and 1977, increases in total employment earnings occurred in all the income classes above \$15,000, as they had between 1975 and 1976.

In contrast to the movements recorded in the middle and upper income ranges, the lower income brackets showed a decline in 1977 both in the number of taxfilers with employment income and in the share of total income. This development is due, in part, to the natural upward movement of taxfilers in response to both improving employment opportunities in the upper income ranges and to increases in wages and salaries. As a result, the lower income brackets are becoming dominated by the non-employed, retired or part-time employed taxfilers.

DISTRIBUTUION OF EMPLOYMENT EARNINGS BY INCOME CLASS TABLE 4-2

Income Class	Number of Taxfilers with Employment Income	Taxfilers Reporting Employment Income as a per cent of all Taxfilers in Income Class	Total Employment Earnings	Employment Earnings as a per cent of all Income in Class
(\$000)	(000)	(%)	(\$M)	(%)
<u>1976</u>				
Under 5	920	57.9	2,281	59.2
5 - 10	1,030	82.6	6,637	71.6
10 - 12	393	92.0	3,946	84.1
12 - 15	535	93.9	6,682	87.1
15 - 20	560	94.9	8,953	88.4
20 - 25	231	93.1	4,703	85.7
25 - 35	143	89.9	3,652	80.2
35 - 50	40	78.4	1,331	64.7
50 - 75	14	66.7	573	46.6
75+	8	66.7	638	78.3
TOTAL	3,874	78.9	39,412	78.3
<u>1977</u>				
Under 5	849	55.8	1,998	53.6
5 - 10	953	80.7	6,310	71.4
10 - 12	370	90.0	3,710	82.2
12 - 15	500	92.0	6,186	84.7
15 - 20	666	94.8	10,695	88.4
20 - 25	305	94.1	6,267	87.2
25 - 35	193	91.9	5,017	82.8
35 - 50	52	81.2	1,769	68.2
50 - 75	16	66.6	693	47.6
75+	8	66.6	709	45.1
TOTAL	3,916	78.3	43,347	78.3

UNEMPLOYMENT INSURANCE

The majority of persons receiving UIC benefits are concentrated in the lower income brackets. In 1976, 74 per cent of all taxfilers reporting UIC benefits were in the under \$10,000 income class and these beneficiaries comprised 15.9 per cent of all taxfilers in the under \$10,000 income group. In 1977, the respective figures were 69.6 per cent and 18.4 per cent.

Between 1976 and 1977, there was a 1.8 per cent decrease in the number of taxfilers reporting unemployment insurance benefits. This decrease is coincident with an increase in the unemployment rate of 0.8 percentage points, from 6.2 per cent in 1976 to 7.0 per cent in 1977. This apparent contradiction is explained largely by increase in the number of UIC beneficiaries not filing a tax return.

Table 4-3 illustrates the distribution of unemployment insurance benefits reported by taxfilers by income class for 1976 and 1977. The percentage of all taxfilers reporting unemployment insurance benefits decreased from 14.8 per cent in 1976 to 14.3 per cent in 1977. The total value of benefits reported for tax purposes was \$874 million in 1976 and \$939 million in 1977. Total benefits paid in Ontario¹ in 1977, which includes benefits paid to those low-income persons who did not file tax returns, also increased - from \$921 million to \$1,004 million.² Unemployment insurance benefits, as a percentage of all reported income in Ontario, were 1.7 per cent in 1976 and 1.8 per cent in 1977.

DISTRIBUTION OF TAXABLE UIC BENEFITS BY INCOME CLASS

TABLE 4-3

Income Class	1976		1977	
	Number of Taxfilers Claiming Benefits	Average Benefit	Number of Taxfilers Claiming Benefits	Average Benefit
(\$000)	(000)	(\$)	(000)	(\$)
Under 5	245	1,155	225	926
5 - 10	292	1,344	271	1,516
10 - 12	63	1,237	64	1,233
12 - 15	63	1,036	67	1,299
15 - 20	45	924	61	1,105
20 - 25	12	761	17	861
25+	5	681	6	772
TOTAL	726	1,204	713	1,315

¹After cancellation of warrants and collection of overpayments.

²From Statistical Report on the Operation of the Unemployment Insurance Act. Catalogue Number 73-001.

It is not surprising that taxfilers reporting unemployment insurance benefits are concentrated in the under \$10,000 income range. However, over the period from 1972 to 1977, the percentage of taxfilers in upper income brackets reporting unemployment insurance benefits has increased. In 1972, only 6.9 per cent of taxfilers claiming benefits were in the above \$10,000 income range, whereas in 1977, this proportion had risen to 30.2 per cent. This trend reflects an increase in the incidence of unemployment in higher paying occupations, an increase in unemployment insurance payments (from an average of \$92.89 per week to \$103.84 in 1977) and growth in incomes.

Since contributions are linked to earnings from employment, the distribution of contributors shown in Table 4-4 approximates the distribution of employment earnings by income class found in Table 4-2. Total contributions deducted by taxfilers increased from \$420 million in 1976 to \$425 million in 1977, an increase of 1.2 per cent. Since the maximum contribution level (\$3.30 weekly, \$171.60 annually) did not change in 1977, this small increment is accounted for solely by the fact that the number of contributors increased by 45,000 in 1977.

DISTRIBUTION OF UIC CONTRIBUTIONS BY INCOME CLASS

TABLE 4-4

Income Class	1976		1977	
	Number of Contributors	Average Contributions	Number of Contributors	Average Contributions
(\$000)	(000)	(\$)	(000)	(\$)
Under 5	829	34	770	25
5 - 10	972	83	896	94
10 - 12	374	147	352	140
12 - 15	513	159	478	154
15 - 20	537	164	641	162
20 - 25	218	165	290	165
25 - 35	130	166	178	166
35 - 50	32	165	43	163
50 - 75	14	163	16	155
TOTAL	3,621	116	3,666	116

Table 4-5 illustrates the distribution of UIC benefits by sex and marital status for 1976 and 1977. Over the period, there was an overall decrease in the number of taxfilers reporting UIC benefits. The decline was evenly distributed between male/female married taxfilers, though there was a nominal increase in the number of male/female single recipients.

DISTRIBUTION OF TAXABLE UIC BENEFITS BY
SEX AND MARITAL STATUS

TABLE 4-5

	Male		Female	
	Number	Average Benefit	Number	Average Benefit
	(000)	(\$)	(000)	(\$)
<u>1976</u>				
Married	231	1,242	229	1,174
Single	173	1,319	93	969
<u>1977</u>				
Married	220	1,334	212	1,310
Single	176	1,399	106	1,146

CHAPTER 5: INVESTMENT INCOME

This chapter discusses the distribution and tax treatment of three important sources of investment income - interest income, dividend income and capital gains. Table 5-1 shows the breakdown of these sources of investment income and their share of total income.

MAJOR SOURCES OF INVESTMENT INCOME REPORTED FOR TAX PURPOSES					TABLE 5-1	
Income Source	Value		Per Cent of Total Income		Per Cent of Investment Income	
	1976	1977	1976	1977	1976	1977
	(\$M)		(%)		(%)	
Interest	2,593	2,848	5.1	5.1	79.7	78.7
Dividends *	503	560	1.0	1.0	15.6	15.5
Capital Gains	159	208	0.3	0.4	4.7	5.7
TOTAL	3,255	3,616	6.4	6.5	100.0	100.0

*Cash dividends calculated as 75 per cent of taxable dividends.

INTEREST INCOME

Interest income continues to be a significant source of income in Ontario, remaining a constant percentage of total income but declining as a percentage of total investment income from 1976 to 1977.

Table 5-2 provides a breakdown of the three major types of interest income--interest from bank deposits, bond holdings and mortgage holdings.

INTEREST INCOME REPORTED FOR TAX PURPOSES				TABLE 5-2
	Number of Taxfilers Reporting Interest	Average Interest Income	Total Interest Income	Interest Income as a per cent of Gross Income
	(000)	(\$)	(\$million)	(%)
1976				
Bank Interest	1,969	885	1,743	3.46
Bond Interest	518	824	427	0.85
Mortgage Interest	185	2,287	423	0.84
TOTAL	*	*	2,593	5.15
1977				
Bank Interest	1,998	999	1,996	3.60
Bond Interest	549	812	446	0.81
Mortgage Interest	165	2,473	407	0.73
TOTAL	*	*	2,848	5.15

*No total has been shown since these numbers are not additive due to double counting.

In 1977, income from bank deposits as a percentage of total interest income increased to 70 per cent from 67 per cent in 1976. The proportion of total interest income held by bond interest and mortgage interest declined slightly from the 1976 level, representing 16 and 14 per cent respectively. In addition, a small amount of interest income is reported from other sources such as annuities and trusts, but is negligible for analysis in this report.

From 1976 to 1977, the number of taxfilers reporting bank interest income increased by 1.1 per cent. This low growth can be explained by the decrease in 1977 in bank interest rates paid on non-chequable savings deposits and guaranteed investment certificates.

The number of taxfilers reporting mortgage interest income decreased by 11.9 per cent between 1976 and 1977. The 7.7 per cent increase in the average value of mortgage interest income was the result of a combination of factors: an increase in the number of mortgages, larger new loans, and refinancing of old loans, many at a higher interest rate. The total value of interest income from mortgages fell by 3.8 per cent to \$407 million, suggesting a stabilization in the trend from the previous year.

Bonds have become an increasingly important savings instrument as evidenced by the increase in the number of taxfilers reporting income from bond interest since 1973. From 1976 to 1977, 5.6 per cent more taxfilers reported bond interest income. This increase is, in part, explainable by the steady decline in interest rates throughout 1977. This, in turn, encouraged people to invest in bonds, both to retain a high interest rate savings instrument and as a potential capital gain. However, while the number of taxfilers in the above \$15,000 income class reporting bond interest income rose by 44.5 per cent from 1976 to 1977, the number of taxfilers in the under \$15,000 income class fell by 9.6 per cent. It may be expected that a larger number of high income taxfilers, because of their greater disposable income, would tend to invest more heavily in bonds. Furthermore, given the previous inflation record, expectations of further inflation may have caused lower income taxfilers to spend rather than save

while the AIB controls on dividends may have moved some high income taxfilers to bond investments. The 1976 and 1977 decrease in average value of income reported from bond interest was negligible, due largely to a greater increase in the number of taxfilers reporting bond interest than in the total interest income from bonds.

Since 1974, many taxfilers holding Canada Savings Bonds with uncashed coupons or with bonus coupons cashable only at maturity have been reporting interest on a receivable basis rather than on a cash basis to take optimal advantage of the \$1,000 investment income deduction.

The distribution of interest income by income class is shown in Tables 5-3 to 5-5. In general, savings in the form of bank deposits (including long-term securities such as Guaranteed Investment Certificates, etc.) dominate all income classes due to their use as a "safe" investment and for future transactions. This strong performance in the lower income brackets is reinforced by the savings behaviour of pensioners, as detailed in Chapter 8.

DISTRIBUTION OF BANK INTEREST BY
INCOME CLASS

TABLE 5-3

Income Class	Number of Taxfilers	Taxfilers Reporting Interest as a per cent of All Taxfilers in Class	Average Value
(\$000)		(%)	(\$)
<u>1976</u>			
Under 5	478,614	30.1	544
5 - 10	474,497	38.1	868
10 - 12	172,884	40.5	801
12 - 15	235,374	41.3	772
15 - 20	293,161	49.7	754
20 - 25	143,481	57.9	978
25 - 35	105,388	66.3	1,342
35 - 50	38,944	76.4	2,144
50 - 75	16,720	79.6	3,751
75+	9,985	83.2	10,151
TOTAL	1,969,048	40.1	885
<u>1977</u>			
Under 5	450,095	29.5	569
5 - 10	425,229	36.0	1,026
10 - 12	160,523	38.9	935
12 - 15	226,602	41.6	887
15 - 20	333,079	47.4	860
20 - 25	187,370	57.7	943
25 - 35	136,334	64.7	1,320
35 - 50	48,443	75.0	2,428
50 - 75	19,876	83.3	4,008
75+	10,993	91.6	9,827
TOTAL	1,998,444	40.0	999

DISTRIBUTION OF MORTGAGE INTEREST BY
INCOME CLASS

TABLE 5-4

Income Class	Number of Taxfilers	Taxfilers Reporting Interest as a per cent All Taxfilers in Class	Average Value
(\$000)		(%)	(\$)
<u>1976</u>			
Under 5	37,982	2.4	1,028
5 - 10	50,871	4.1	1,792
10 - 12	13,751	3.2	2,049
12 - 15	19,364	3.4	2,297
15 - 20	23,674	4.0	2,322
20 - 25	13,887	5.6	2,558
25 - 35	12,406	7.8	3,377
35 - 50	6,676	13.1	5,263
50 - 75	3,458	16.5	5,176
75+	2,687	22.4	12,639
TOTAL	184,756	3.8	2,287
<u>1977</u>			
Under 5	30,419	1.9	1,053
5 - 10	41,577	3.4	1,954
10 - 12	12,093	2.9	2,151
12 - 15	17,531	3.1	2,196
15 - 20	22,497	3.1	2,349
20 - 25	14,575	4.6	2,953
25 - 35	13,791	6.6	3,473
35 - 50	6,515	10.0	5,098
50 - 75	3,391	14.1	6,261
75+	2,147	16.6	11,711
TOTAL	164,536	3.3	2,473

DISTRIBUTION OF BOND INTEREST BY
INCOME CLASS

TABLE 5-5

Income Class	Number of Taxfilers	Taxfilers Reporting Interest as a per cent All Taxfilers in Class	Average Value
(\$000)		(%)	(\$)
<u>1976</u>			
Under 5	105,799	6.7	487
5 - 10	125,136	10.0	727
10 - 12	48,523	11.4	731
12 - 15	63,728	11.2	608
15 - 20	77,201	13.1	774
20 - 25	39,078	15.8	1,031
25 - 35	36,642	23.0	1,182
35 - 50	13,444	26.4	2,032
50 - 75	5,437	25.9	3,410
75+	3,427	28.6	6,207
TOTAL	518,415	10.6	824
<u>1977</u>			
Under 5	102,177	6.7	1,073
5 - 10	122,965	10.4	747
10 - 12	46,862	11.4	703
12 - 15	62,711	11.6	793
15 - 20	89,831	12.8	700
20 - 25	52,474	16.0	775
25 - 35	44,150	20.9	1,097
35 - 50	17,701	26.5	1,619
50 - 75	6,598	27.5	3,138
75+	3,586	30.0	6,096
TOTAL	549,055	10.9	812

DIVIDEND INCOME

In 1975, 417,044 taxfilers reported taxable dividends, with a total dollar value reported for tax purposes of \$653 million. By 1976, the number of taxfilers claiming taxable dividends had dropped to 392,318, a decline of 5.9 per cent. In 1977, the number of such taxfilers increased by a nominal 1.4 per cent, while the total dollar value of dividends increased to \$748 million - an increase of 11.5 per cent. Slow growth in the number of taxfilers reporting taxable dividends has been visible since 1972. This trend is a reflection of a shift in preference towards lower risk investments. Since the beginning of the decade, individuals have been avoiding the stock market and taking up safer investments such as real estate or bonds, whereas institutions have been purchasing dividend-yielding shares. As a result, there has not been a visible reaction to the inclusion of dividends in 1975 in the \$1,000 interest deduction.

The 9.7 per cent increase in the average value of dividend income received from taxable Canadian corporations from 1976 to 1977 is largely a result of higher corporate profits.

The income distribution of dividends received from taxable Canadian corporations reported for 1976 and 1977 is shown in Table 5-6. As this table indicates, the distribution of taxable dividend income is biased towards the upper income ranges.

From 1976 to 1977, the number of taxfilers reporting dividend income decreased by 4.2 per cent in the under \$20,000 income range. At the same time, the average value of dividend income reported for this income class increased by 3.7 per cent. This pattern has been visible for several years: a drop in the number of lower income taxfilers and an increase in the overall average value of dividend income. This trend is most likely a result of taxfilers in the lower income ranges, whose dividend income was considerably below the average value of their particular income class, selling their shares and dropping out of the market. Supporting this pattern also is the movement of people from lower income groups to higher income groups from 1976 to 1977. As a result, the average value of dividend income reported by lower income classes is pushed upwards.

It should be noted that dividends as declared by Canadian Corporations were stiffly regulated by the Anti-Inflation Board in 1976 and 1977.

DISTRIBUTION OF DIVIDENDS FROM TAXABLE
CANADIAN CORPORATIONS BY INCOME CLASS

TABLE 5-6

Income Class (\$000)	Number of Taxfilers Reporting Dividends	Taxfilers Reporting Dividend Income as per cent of All Taxfilers in Income Class (%)	Total Value of Actual Dividends ⁽¹⁾ (\$M)	Average Value (\$)
<u>1976</u>				
Under 5	65,327	4	18	287
5 - 10	76,824	6	38	500
10 - 12	30,088	7	18	597
12 - 15	39,277	7	28	714
15 - 20	57,331	10	43	746
20 - 25	38,936	16	37	948
25 - 35	43,134	27	66	1,526
35 - 50	21,983	43	69	3,137
50 - 75	11,549	55	66	5,686
75+	7,959	66	120	15,067
TOTAL	392,318	8	503	1,283
<u>1977</u>				
Under 5	54,525	4	21	385
5 - 10	72,967	6	35	479
10 - 12	29,937	7	17	568
12 - 15	43,905	8	30	683
15 - 20	56,197	8	48	854
20 - 25	46,652	7	45	965
25 - 35	47,734	15	73	1,529
35 - 50	24,806	12	81	3,265
50 - 75	12,506	52	78	6,237
75+	8,471	67	137	16,172
TOTAL	397,700	8	560	1,408

1. Cash Dividends calculated as 75 per cent of Taxable Dividends.

Table 5-7 displays the income distribution of the dividend tax credit. The number of taxfilers claiming a credit represents 83 per cent of all taxfilers reporting taxable dividends in 1976 and 86 per cent in 1977.

DISTRIBUTION OF DIVIDEND TAX CREDIT
BY INCOME CLASS

TABLE 5-7

Income Class	Number of Claimants	Average Value of Tax Credit	
		Federal	Ontario
(\$000)		(\$)	(\$)
<u>1976</u>			
Under 5	15,929	33	10
5 - 10	68,486	106	32
10 - 12	28,283	157	48
12 - 15	37,520	190	58
15 - 20	55,655	201	61
20 - 25	37,833	254	77
25 - 35	42,378	411	125
35 - 50	21,824	838	256
50 - 75	11,435	1,518	463
75+	7,878	4,040	1,232
TOTAL	327,221	382	117
<u>1977</u>			
Under 5	13,805	24	11
5 - 10	64,888	94	41
10 - 12	29,153	131	58
12 - 15	42,506	164	72
15 - 20	54,395	216	95
20 - 25	45,163	246	108
25 - 35	47,066	384	169
35 - 50	24,411	827	364
50 - 75	12,338	1,566	689
75+	8,404	4,070	1,791
TOTAL	342,129	385	170

In 1976, 327,221 taxfilers claimed a dividend tax credit. The total value claimed was \$125 million, which was applied against federal tax. The additional tax saving due to Ontario's dividend tax credit in 1976 was \$38 million.

In 1977, the number of taxfilers claiming the dividend tax credit increased to 342,129. The total value of federal dividend tax credit was \$132 million, up 5.6 per cent from 1976. Ontario's dividend tax credit amounted to \$58 million in 1977, an increase of 53 per cent over the previous year. The modest increase in the federal credit coupled with the substantial increase in the Ontario credit is attributable to the changes in federal-provincial tax sharing as presented in Chapter 2.

CAPITAL GAINS

In 1976, capital gains were reported by 157,634 taxfilers. The average gain reported was \$1,086 and the total taxable capital gains reported for income tax purposes were \$171 million. In 1977, the number of taxfilers reporting capital gains increased by 5.7 per cent to 166,639. The average gain reported increased by 15 per cent to \$1,248 and the total taxable capital gains increased by 22 per cent to \$208 million.

Of all taxfilers reporting capital gains in 1977, 58 per cent reported share transactions;¹ 19 per cent, real estate; 9 per cent, bond and other property transactions, and 24 per cent, other transactions.²

Table 5-8 shows a 7 per cent jump in the number of taxfilers reporting capital gains from shares. The average gain from share transactions increased from \$557 in 1975 to a gain of \$961 in 1977. Part of this increase is due to the continuing recovery of the 1974 stock market slump brought about by the oil crisis at that time.

1. Percentages do not add to 100 since some taxfilers report capital gains from more than one source.
2. Other transactions include dispositions of listed personal property and personal use property and Canada Savings Bonds bonus coupons.

TRANSACTIONS RESULTING IN
CAPITAL GAINS

TABLE 5-8

	Number of Taxfilers		Average Gain	
	1976	1977	1976 (\$)	1977
Shares	91,180	97,384	557	961
Bonds & Other Properties	16,013	15,406	-145	-409
Real Estate	30,138	32,653	7,588	7,604
Other Sources	34,311	39,581	481	491

The increase in capital gains from real estate transactions has slowed from an increase of 43.8 per cent from 1974 to 1975 down to an increase of 2.1 per cent from 1976 and 1977, largely due to an easing in real estate price escalation in Ontario. In addition, special taxes imposed by the Ontario Government on certain real estate transactions served to dampen speculation over this period.

For the first time, in 1977, Canadian investment data has been separated from other investment data.* Capital gains reported on other investments were, on average, slightly greater than Canadian investments, as shown in Table 5-9. Since only one year's data is available, it is impossible to tell whether this is part of a trend or merely a one-year phenomenon.

CAPITAL GAINS REPORTED ON CANADIAN
AND OTHER INVESTMENTS, 1977

TABLE 5-9

	CANADIAN		OTHER	
	Number	Average Capital Gain	Number	Average Capital Gain
	(000)	(\$)	(000)	(\$)
Shares	75.9	885	21.5	1,230
Bond	9.2	-749	6.2	128
Information Slips	29.7	333	6.5	313

The distribution of capital gains by income class is set out in Table 5-10. One feature of this table is the relatively large number of taxfilers reporting capital gains in the lower income groups. This can be explained by two factors. First, pensioners earning a low income have accumulated considerable assets in prior years when their

*Other investments include securities issued by corporations not resident in Canada or corporations not dealt with at "arms-length".

incomes were higher; second, the low-income group contains persons whose major source of income was capital gains, for example, spouses with investment income.

DISTRIBUTION OF TAXABLE CAPITAL GAINS BY
INCOME CLASS

TABLE 5-10

Income Class	Numbers of Taxfilers Reporting Gains	Taxfilers Reporting Gains as a per cent of all Taxfilers in Class	Total Taxable Gain	Average Taxable Gain
(\$000)		(%)	(\$M)	(\$)
<u>1976</u>				
Under 5	13,381	1	4.6	341
5 - 10	24,619	2	14.1	572
10 - 12	10,270	2	5.1	493
12 - 15	15,997	3	8.4	523
15 - 20	27,107	5	17.3	637
20 - 25	19,620	8	12.1	616
25 - 35	22,381	14	20.9	936
35 - 50	12,270	24	17.7	1,441
50 - 75	6,940	33	14.9	2,144
75+	5,049	42	43.6	8,643
TOTAL	157,634	3	171.2	1,086
<u>1977</u>				
Under 5	14,041	1	1.6	116
5 - 10	23,796	2	14.2	576
10 - 12	11,058	3	4.8	437
12 - 15	16,966	3	7.9	468
15 - 20	23,177	3	17.3	745
20 - 25	22,618	6	19.0	840
25 - 35	25,489	12	24.0	942
35 - 50	15,001	23	28.2	1,881
50 - 75	7,870	33	23.1	2,937
75+	5,623	47	62.7	11,162
TOTAL	166,639	3	208.0	1,248

Table 5-10 indicates that the percentage of taxfilers reporting gains and the average dollar value reported increased generally as income increased. Also, in 1977, there was a distributional shift in reported capital gains towards taxfilers in the upper income groups. For example, in 1976, 40 per cent of taxfilers reporting capital gains were in the over \$20,000 income range, but by 1977 this proportion had increased to 46 per cent.

CHAPTER 6: TAX DEFERRAL MECHANISMS

This chapter examines how the income tax system is used to encourage savings for retirement and for home ownership. Three types of retirement plans are eligible for tax deferral -- contributions to the Canada Pension Plan (CPP), contributions to a Registered Retirement Savings Plan (RRSP), and contributions to a Registered Pension Plan (RPP).

Table 6-1 displays the distribution of contributions among the various tax deferral plans for 1976 and 1977. Contributors to the CPP outnumber contributors to either an RPP or an RRSP because all taxfilers with employment or self-employment income greater than the basic exemption must contribute to the CPP. However, because of the comparatively low statutory ceilings on CPP contributions (\$151.20 in 1977 for employees, double if self-employed) and the relatively low CPP contribution rate, the amount of income contributed and the amount of tax deferred is much lower than is the case with either of the other plans.

TAXFILERS CONTRIBUTING TO PENSION PLANS			TABLE 6-1
	Number of Contributors	Average Contribution	Total Contributions
	(000)	(\$)	(\$M)
1976			
Canada Pension Plan	3,716	111	411
Registered Pension Plan	1,096	666	730
Registered Retirement Savings Plan	528	1,607	849
1977			
Canada Pension Plan	3,758	123	462
Registered Pension Plan	1,110	743	825
Registered Retirement Savings Plan	595	1,645	980

Table 6-1 also demonstrates the growth of these retirement savings plans relative to one another. Although the number of taxfilers who contribute to a Registered Pension Plan is approximately twice as large as the number of taxfilers who contribute to a Registered Retirement Savings Plan, growth of RRSPs has outstripped that of RPPs since 1972. In 1977, the rates of growth in the number

of contributors to RPPs and RRSPs were 1.3 per cent and 12.7 per cent respectively. As a result of the growth in the number of contributors to RRSPs, RRSP contributions have outstripped RPP contributions. In 1972, total contributions to RRSPs were only 67 per cent of those to RPPs. By 1977, total contributions to RRSPs represented 119 per cent of those to RPPs, with contributions to RRSPs exceeding those to RPPs by \$155 million.

Table 6-1 also indicates that, in 1977, the total dollar value of CPP deductions increased by 12.4 per cent. The value of deductions for contributions to RPPs and RRSPs increased by 13.0 per cent and 15.4 per cent respectively. With respect to RRSPs there are likely both income and substitution effects responsible for this behaviour. The increase in income and, therefore, also in disposable income, led to an overall increase in demand for all types of savings for retirement purposes. It is also likely that a large number of taxfilers shifted savings from traditional instruments to RRSPs in order to enjoy tax deferral benefits.

The increases in average CPP and RPP contributions are influenced by the statutory limitations imposed on the plans and by the growth in wages. The increase in average RRSP contributions however, reflects a different set of circumstances. Those persons who have been participating in RRSPs for a number of years likely increased their contributions in 1977 by more than 2.4 per cent. However, the large number of first-time contributors, reflected by the 12.7 per cent growth in numbers, probably made initial investments somewhat below average. These counteracting results yielded the small growth in average RRSP contributions.

The distribution of contributors to the various pension plans by income class is shown in Table 6-2. With the exception of the under \$10,000 and \$35,000 to \$75,000 income brackets, over 90 per cent of the taxfilers in each bracket made contributions to the Canada Pension Plan. Only 42 per cent of taxfilers contributed to CPP in the under \$5,000 income group. This group contains pensioners, persons with non-contributory earnings and occasional workers who earn less than the statutory minimum from employment sources.

DISTRIBUTION OF CPP, RPP AND RRSP CONTRIBUTIONS BY INCOME CLASS, 1977

TABLE 6-2

Income Class	CPP Contributions			RPP Contributions			RRSP Contributions		
	Number of Taxfilers	Number of Contributors	Average Contribution	Number of Contributors	Average Contribution	Number of Contributors	Average Contribution	Number of Contributors	Average Contribution
(\$000)	(000)	(000)	(\$)	(000)	(\$)	(000)	(\$)	(000)	(\$)
Under 5	1,521	646	33	27	201	10	374		
5 - 10	1,180	963	108	140	241	62	699		
10 - 12	411	372	151	124	441	42	915		
12 - 15	542	506	154	200	546	73	1,059		
15 - 20	702	673	154	312	745	148	1,345		
20 - 25	342	310	155	155	980	101	1,696		
25 - 35	210	198	157	112	1,402	96	2,265		
35 - 50	64	57	170	28	1,931	37	3,177		
50 - 75	24	20	196	6	2,222	15	4,210		
75+	12	10	192	2	2,648	8	4,838		
TOTAL	4,995	3,758	123	1,110	743	595	1,645		

In 1977 the percentage of taxfilers claiming contributions to a Registered Pension Plan varied from 2 per cent in the lowest income bracket to 53 per cent in the \$25,000 to \$35,000 bracket. The heaviest concentration of contributors was in the middle income ranges. This reflects the fact that RPPs are commonly offered as a benefit of employment and so are linked to the payment of wages and salaries. Employees, as a percentage of all taxfilers, are highest in the \$5,000 to \$35,000 income classes.

In 1977, participation rates of contributors to Registered Retirement Savings Plans increased progressively as income increased, from less than 1 per cent in the lowest income bracket to 67 per cent for those taxfilers with incomes in excess of \$75,000. Although those taxfilers reporting over \$12,000 in gross income represented slightly over one-third of all taxfilers, they represented 80 per cent of the total number of taxfilers contributing to an RRSP. The higher disposable income characteristic of taxfilers in the upper income brackets explains the rapidly escalating average contributions in these income groups.

REGISTERED HOME OWNERSHIP SAVINGS PLANS (RHOSP)

Commencing in 1974, the income tax system was also used to encourage savings for home ownership. Table 6-3 indicates that from 1976 to 1977, the number of taxfilers contributing to an RHOSP increased by 4 per cent to 205,858. This small increase is due to the maturing of the program. When the program was introduced, many taxfilers jumped at the opportunity to reduce their taxes and save for a home. By 1977, with up to four years of contributions invested, a large number of these persons had used these funds as down payments for homes and, hence, terminated their plans. Others cashed in their plans in advance of the closing of certain loopholes effective in 1978.

It is not surprising that the largest increase in taxfilers contributing to a RHOSP took place in the \$15,000 to \$35,000 income range. This range contains the home-buying public; those with incomes below \$15,000 generally cannot afford a home and those with incomes over \$35,000 usually own a home already. The growth rate of the number of taxfilers contributing to RHOSPs in the \$15,000 to \$35,000 income classes went from 66 per cent in 1976 to 36 per cent in 1977.

DISTRIBUTION OF RHOSP CONTRIBUTIONS BY
INCOME CLASS

TABLE 6-3

Income Class	1976		1977	
	Number of Contributors	Average Contribution	Number of Contributors	Average Contribution
Under 5	9,553	800	8,546	731
5 - 10	49,405	890	42,291	914
10 - 12	27,068	947	21,998	916
12 - 15	41,024	946	39,486	947
15 - 20	40,622	970	49,992	958
20 - 25	13,514	963	22,590	979
25 - 35	9,212	991	13,440	990
35 - 50	4,299	998	4,263	996
50 - 75	2,242	999	2,135	997
75+	1,308	1,000	1,117	997
TOTAL	198,247	935	205,858	945

Average contributions to the program in 1977 approximates those of 1976. This is due to the \$1,000 ceiling on annual contributions. Most taxfilers who did contribute took almost full advantage of the available deduction.

TAX SAVINGS

Table 6-4 shows that in 1977, an estimated \$818 million in income tax was deferred in Ontario via the deduction of pension contributions. The bulk of this tax saving was attributable to registered pension plans and registered retirement saving plans. Between 1976 and 1977, the total tax deferral from all pension plans grew by 14 per cent, with the breakdown for deferral growth paralleling the pattern of contribution growth: CPP rose by 11.5 per cent, RPP by 12.8 per cent, and RRSP by 15.1 per cent. On a per contributor basis, the average tax savings in 1977 were \$33 from the CPP, \$261 from an RPP and \$665 from an RRSP. During the same period, total tax deferral resulting from RHOSP contributions rose by 3.6 per cent. The average tax saving per contributor increased from \$282 in 1976 to \$287 in 1977.

TAX SAVINGS RESULTING FROM CONTRIBUTIONS TO
PENSION AND SAVINGS PLANS, 1976 and 1977

TABLE 6-4

	Applicable Tax Rate ¹	Total Contribution	Tax Deferred
<u>1976</u>	(%)	(\$M)	(\$M)
Canada Pension Plan	27.4	411	113
Registered Pension Plan	35.2	730	257
Registered Retirement Savings Plan	40.5	849	344
Registered Home Owner- ship Savings Plan	30.0	185	56
TOTAL		2,175	770
<u>1977</u>			
Canada Pension Plan	27.4	461	126
Registered Pension Plan	36.0	824	297
Registered Retirement Savings Plan	40.3	979	395
Registered Home Owner- ship Savings Plan	30.2	194	59
TOTAL		2,458	877

¹ Applicable tax rate which includes Ontario Income Tax was derived via analysis of data on contributors to the various plans. The applicable 1977 tax rates reflect the changes in federal-provincial tax sharing.

CHAPTER 7: WOMEN IN THE TAX SYSTEM

The number and proportion of women in Ontario's taxfiling population has been increasing consistently since 1972. As a result of this, women have been playing an increasingly dynamic role as part of Ontario's taxfiling population. Between 1976 and 1977, the number of women filing a tax return increased by 4.0 per cent, while the number of females over 15 years of age increased by only 2.3 per cent. In 1976, 65.8 per cent of all women over age 15 in Ontario filed a tax return, and by 1977 this number had increased to 66.9 per cent. These and other demographic changes are presented in Table 7-1.

ONTARIO'S TAXFILING POPULATION BY SEX

TABLE 7-1

	<u>Sex</u>	<u>1976</u>	<u>1977</u>	<u>Per Cent Increase 1976/77</u>
Population over 15 years of age (000) ¹	Male	3,034	3,099	2.1
	<u>Female</u>	<u>3,157</u>	<u>3,229</u>	<u>2.3</u>
	Total	6,191	6,329	2.2
Labour Force (000) ²	Male	2,402	2,455	2.2
	<u>Female</u>	<u>1,529</u>	<u>1,589</u>	<u>3.9</u>
	Total	3,931	4,044	2.8
Number of Taxfilers (000)	Male	2,836	2,836	0.0
	<u>Female</u>	<u>2,076</u>	<u>2,159</u>	<u>4.0</u>
	Total	4,912	4,995	1.7
Number of Taxpayers as a Percentage of Popula- tion (Per Cent)	Male	71.4	70.0	-1.9
	Female	36.0	36.4	1.1
Number of Taxpayers as a Percentage of Taxfilers (Per Cent)	Male	76.4	76.5	0.1
	Female	54.8	54.5	-0.5

1. Statistics Canada Catalogue number 91.202.

2. Statistics Canada Catalogue number 71-001, "The Labour Force".

To evaluate better the increase in the participation of women in Ontario's tax system, one can examine the increase in the size of the male/female population and compare changes in the male/female labour force and the male/female taxfiling population. Table 7-1 shows that the male labour force increased by 2.2 per cent, which is only marginally greater than the increase in the size of the male population. On the other hand, the female labour force increased by 3.9 per cent, while the female population increased by only 2.3 per cent. These figures, combined with the fact that there was a 4.0 per cent increase in the number of female taxfilers, support the view that women are becoming a more active part of the labour force.

Table 7-1 reveals that the percentage of female taxfilers paying taxes has increased slightly as a percentage of all females in the province, from 36.0 per cent in 1976 to 36.4 per cent in 1977. The number of women paying taxes as a percentage of all taxfilers declined slightly in 1977. This is probably due to the fact that a higher proportion of females is concentrated in the lower income groups and because most tax reduction measures have been focused primarily on the under \$10,000 income bracket. As a result, the drop in females paying taxes has outweighed the decline in males paying taxes. In 1977, 73 per cent of all female taxfilers were in the under \$10,000 income bracket.

Table 7-2 shows the income distribution of male and female taxfilers in 1976 and 1977.

INCOME DISTRIBUTION OF TAXFILERS BY SEX

TABLE 7-2

Income Class	1976				1977					
	Number of Females (000)	Per cent of Females (%)	Number of Males (000)	Per cent of Males (%)	Females as a per cent of Total (%)	Number of Females (000)	Per cent of Females (%)	Number of Males (000)	Per cent of Males (%)	Females as a per cent of Total (%)
(\$000)	(000)	(%)	(000)	(%)	(%)	(000)	(%)	(000)	(%)	(%)
Under 5	947	45.6	622	21.9	60.4	909	42.1	612	21.5	59.7
5 - 10	708	34.1	526	18.6	57.4	668	30.9	512	18.0	56.6
10 - 12	160	7.7	267	9.4	37.5	193	8.9	218	7.6	46.9
12 - 15	135	6.5	435	15.3	23.7	157	7.2	385	13.5	28.9
15 - 20	81	3.9	507	17.3	13.8	121	5.6	581	20.4	17.2
20 - 25	25	1.2	223	7.9	10.1	36	1.6	288	10.1	11.1
25 - 35	13	0.6	146	5.2	8.2	19	0.8	191	6.7	9.0
35 - 50	4	0.2	47	1.7	7.8	5	0.2	59	2.1	7.8
50+	3	0.1	30	1.1	9.1	3	0.1	33	1.1	8.3
TOTAL	2,077	100.0	2,836	100.0	42.3	2,159	100.0	2,836	100.0	42.3

Note: Totals may not add due to rounding.
Percentages are calculated using actual figures.

OCCUPATION

Analysis of tax returns indicates the major occupational areas in which women are concentrated. Data for 1976 and 1977, which are compiled in Table 7-3, reveal changes in the occupational structure for women.

Table 7-3 indicates that females are gradually moving into male-oriented occupations. Females, as a percentage of total taxfilers, increased from 1976 to 1977 in the following traditionally male occupational groups: farming and fishing, medicine, forestry, sales, trade, armed forces, transportation, communication and public utilities. Increases in the professional fields have been difficult to define because many professionals work for a firm or for government and are classified as employees.

Table 7-3 shows a greater proportion of female rather than male investors and property owners. In 1976, 64.1 per cent of all taxfilers reporting investment or capital gains as their major source of income were females. By 1977, this figure had increased to 68.5 per cent. One possible explanation for this female dominance is that in cases where female taxfilers had minimal or no income from employment sources, husbands may have placed investments in their spouse's name, in order to reduce tax payable on the various forms of investment income, despite the income attribution rules. This group of women also includes widows who have inherited their spouse's investments. Those widows who do not remarry would most likely also be reporting income other than investment income, but it is quite possible that those who chose to remarry would be reporting only investment income.

	1976			1977		
	Number of Females	Number of Males	Females as a % of Total	Number of Females	Number of Males	Females as a % of Total
Employees	1,426,000	2,154,000	38.8	1,462,000	2,157,100	40.3
Farmers and Fishermen	5,800	60,500	8.8	5,700	56,900	9.1
Self-employed professionals						
- accountants	200	2,600	7.1	300	2,700	9.6
- doctors and surgeons	900	10,000	8.3	900	9,500	8.6
- dentists	*	2,700	3.4	200	3,000	6.0
- lawyers and notaries	300	5,400	5.3	300	5,900	4.0
- engineers and architects	*	1,000	-	*	1,200	-
- other professionals	4,600	6,300	42.2	4,900	6,300	43.6
Sales (including insurance and real estate)	3,500	11,400	23.5	3,500	11,400	23.6
Forestry, manufacturing and construction	1,000	36,500	2.7	1,800	37,200	4.6
Recreation services (including entertainers and artists)	2,400	6,800	26.1	2,100	6,400	31.0
Transportation, Communications and Public Utilities	1,300	16,500	7.3	2,100	17,000	10.9
Trade (wholesale and retail)	12,500	36,300	25.6	13,800	38,400	26.5
Investors and Capital Gains	164,600	92,400	64.1	168,500	77,500	68.5
Property Owners	19,300	16,300	54.2	19,500	17,800	52.3
Pensioners	268,400	240,300	52.8	281,100	241,700	53.7
Armed Forces personnel	1,500	20,000	7.0	1,600	19,900	7.3
Business services	800	1,200	40.0	800	2,200	26.7
Other finance, other services and other business	164,300	130,000	55.8	189,900	124,300	60.4
TOTAL	2,077,400	2,850,200	42.2	2,159,000	2,836,000	43.2

Notes: Totals may not add due to rounding.

Percentages are calculated using actual figures.

* represents figures less than 100.

INCOME

Table 7-4 indicates that in Ontario, women earn less than men. In 1976, all male taxfilers in Ontario earned an average of \$12,943 and all women taxfilers \$6,570, which is only 50.8 per cent of male earnings. By 1977, males were earning an average of \$14,082 and females an average of \$7,135. As a result, the earnings differential has diverged somewhat, with average female earnings at 50.7 per cent of male earnings.

Table 7-4 indicates that from 1976 to 1977 the income differentials for men and women narrowed for ten of the nineteen occupations listed. As shown in Table 7-3, eight of these ten occupational fields had indicated an increase in females as a percentage of total taxfilers. The eight occupational fields are:

- . employees
- . farmers and fisherman
- . accountants
- . dentists
- . sales
- . forestry
- . recreation services
- . trade

MARITAL STATUS

As noted earlier, there has been an increase in all women filing tax returns. Table 7-5 indicates that the greater change has been for women with dependants, an increase of about 6.5 per cent contrasted with a 3.6 per cent increase for women with no dependents. The proportion of single women with no dependents went from 42.1 per cent to 42.6 per cent while married women experienced a drop from 48.2 per cent to 47.5 per cent.

AVERAGE INCOME OF TAXFILERS BY SEX (dollars)

TABLE 7-4

	1976			1977		
	Females	Males	Females as a Per Cent of Males	Females	Males	Females as a Per Cent of Males
Employees	7,513	14,037	53.5	9,811	15,301	64.1
Farmers and Fishermen	5,461	8,964	60.9	6,404	9,212	69.5
Self-employed professional						
- accountants	6,706	43,017	15.6	6,568	40,802	15.8
- doctors and surgeons	27,893	48,413	57.6	28,364	53,386	52.9
- dentists	20,661	46,405	44.5	28,588	47,241	60.5
- lawyers and notaries	20,749	47,799	43.4	19,147	44,797	42.7
- engineers and architects	-	30,791	-	-	29,965	-
- other professionals	6,583	19,240	34.2	7,434	13,411	55.4
Sales (including insurance and real estate)	5,593	14,879	37.6	6,328	13,767	45.9
Forestry, manufacturing and construction	5,191	15,464	33.6	6,556	11,112	58.9
Recreation services (incl. entertainers & artists)	5,301	8,555	62.0	5,920	8,324	71.1
Transportation, Communication and Public Utilities	5,566	8,363	66.6	5,928	9,179	64.6
Trade (wholesale & retail)	6,259	11,655	53.7	6,779	12,063	56.1
Investors & Capital Gains	8,023	12,016	66.8	8,840	15,379	57.5
Property Owners	5,669	13,804	41.1	5,524	14,066	39.2
Pensioners	3,105	5,354	58.0	3,434	5,977	57.4
Armed Forces Personnel	9,030	15,153	59.6	9,110	16,885	53.9
Business Services	5,169	12,882	40.1	6,015	11,915	50.5
Other finance, other service and other business	2,659	5,294	50.2	2,833	5,971	47.4
Total	6,570	12,943	50.8	7,135	14,082	50.7

WOMEN TAXFILERS BY MARITAL STATUS

TABLE 7-5

	1976	1977	Per Cent Change (%)
Single - No dependants (000)	875	919	5.0
- With dependants (000)	94	101	7.4
Married - No dependants (000)	1,001	1,025	2.4
- With dependants (000)	107	113	5.6
TOTAL	2,076	2,159	3.9

Note: Totals may not add due to rounding.

Single includes women who have never been married, as well as divorced, separated or widowed women.

Unmarried, divorced, widowed or separated mothers are generally the family heads and sole source of income for the family. Due to inflation, widowed mothers, who were once able to get by on their deceased husbands' life insurance plus other assets, are no longer able to do so and therefore enter the labour force. In addition, many divorcees are forced to find a job due to insufficient alimony payments.

ALIMONY

Table 7-6 indicates that the number of females receiving alimony has been increasing every year.

ALIMONY PAYMENTS TO WOMEN TAXFILERS

TABLE 7-6

	1976	1977	Per Cent Change
Number of Recipients (000)	27	33	22.2
Average Payment (\$)	2,354	3,122	32.6

Average alimony payments increased by 32.6 per cent from 1976 to 1977, while average total income rose by 9.9 per cent during the same time period. However, over the longer term, the growth rate of average alimony payments has not kept pace with the growth rate of average total income. Between 1972 and 1976, increases in average alimony payments were 27.9 per cent, while average total income rose by 60.8 per cent. Thus, although average alimony payments appear to have outstripped inflation, they still lag behind long run average total income gains since 1972. As a result, many women receiving alimony have to work, especially if they have

a dependant. This is one factor influencing the 7.4 per cent increase in single women taxfilers shown in Table 7-5, since many women who had no income before their divorce were now required to file tax returns.

Table 7-7 shows the number of women taxfilers reporting employment income. The changes from 1976 to 1977 are slightly greater than the changes for all female taxfilers; the greatest increases in women reporting employment income were those with dependants. Inflation is the principal cause of the large increases in the number of women reporting employment income and claiming dependants. Married women with children who find that current household income is insufficient, in real terms, to maintain their accustomed lifestyle may choose to seek employment. With improved child care facilities available, they are more likely to be able to do so.

WOMEN TAXFILERS REPORTING EMPLOYMENT INCOME BY MARITAL STATUS			TABLE 7-7
	1976	1977	Per Cent Change
			(%)
Single - No dependants (000)	559	604	8.0
- With dependants(000)	62	70	12.5
Married - No dependants (000)	814	853	4.8
- With dependants (000)	98	108	10.2

The increase in single women with no dependants, as presented in Table 7-5, is, in part, a reflection of an increase in women who work for their own personal fulfillment, rather than of economic necessity. These women, quite often, postpone marriage until later years. In addition, as social attitudes towards women in the work force have been changing, women have become more educated: the more educated a woman is, the more likely she is to be in the work force, and therefore file a tax return.

INCOME OF WOMEN TAXFILERS BY MARITAL STATUS

TABLE 7-8

	1976		1977	
	Average Income	Per cent in the under \$10,000 In- come Group	Average Income	Per cent in the under \$10,000 In- come Group
	(\$)	(%)	(\$)	(%)
Single - no dependants	6,137	81.6	6,628	77.9
- with dependants	6,635	72.8	7,218	70.4
Married - no dependants	6,561	80.9	7,170	75.7
- with dependants	10,165	58.6	10,883	51.9

Table 7-8 shows that in 1977, the average income of married women with no dependants exceeded that of single women with no dependants by 6.9 per cent. The average income of married women taxfilers with dependants was 53.2 per cent greater than that of single women with dependants in 1976, and 50.8 per cent greater in 1977.

CHILD CARE EXPENSES

Traditionally, the assumption has been made that children are the responsibility of their mother who will care for them in the family home. Today, however, more than ever before, there are many couples with children where both husband and wife are in the labour force, as well as an increasing number of single parent families, male and female.

As the participation rates for women with dependants in the Ontario labour force have increased, child care facilities have been expanded. Table 7-9 indicates that the number of working mothers claiming child care expenses has increased by 16.6 per cent from 1976 to 1977. The average claim per taxfiler increased by 14.2 per cent and the average claim per child increased by 13.6 per cent.

INCOME DISTRIBUTION OF WORKING MOTHERS CLAIMING CHILD CARE EXPENSES¹ TABLE 7-9

Income Class	Number of Taxfilers 1976	Number of Taxfilers 1977	Per Cent of Total 1976	Per Cent of Total 1977	Average Claim per Taxfiler 1976	Average Claim per Taxfiler 1977	Average Claim per Child 1976	Average Claim per Child 1977
(\$000)					(\$)		(\$)	
Under 5	19,800	17,000	18.6	13.6	438	376	291	230
5 - 10	54,600	54,700	51.3	44.0	549	739	468	484
10 - 12	11,400	18,600	10.7	14.9	700	851	461	597
12 - 15	12,000	16,700	11.3	13.4	798	878	514	608
15 - 20	5,800	11,900	5.5	9.5	988	989	601	606
20 - 25	2,000	3,400	1.8	2.7	1,067	1,216	720	632
25 - 35	500	1,500	0.4	1.2	1,336	1,408	670	783
35+	400	500	0.3	0.4	1,284	1,493	642	859
TOTAL	106,500	124,200	100.0	100.0	688	786	454	516

Notes: Totals may not add due to rounding.

1. Working women claim 94.4 per cent of child care expenses and the rest is claimed by eligible fathers.

As expected, taxfilers claiming child care expenses are concentrated in the low-income groups. Working mothers in the under \$10,000 income groups are largely those who work, either to supplement their husbands' incomes or because they are the sole providers for the family. Only a small proportion of women taxfilers in the upper-income ranges are claiming child care expenses. The average claim per taxfiler is higher in the upper income ranges because of a higher average number of children in day care facilities and a higher average claim per child.

CHAPTER 8: PENSIONERS IN THE TAX SYSTEM 1976-1977

In 1977, 680,000 persons, 65 years of age and older, filed a tax return. This represented an increase of 11,000 taxfilers over the previous year although pensioners remained at a stable 13.6 per cent of the total taxfiling population. In contrast, although taxpayers increased overall by 1.3 per cent in 1977 over 1976, the number of pensioners paying taxes remained at 178,000 persons, representing 5.3 per cent of all taxpayers.

The stable number of pensioners paying taxes in 1977, in light of the increase in pensioner taxfilers, can be attributed to several factors. First, the 1977 Ontario tax reduction exempted persons from paying provincial tax if their taxable income was less than \$1,680 (an increase from the 1976 taxable income ceiling of \$1,540). Second, pensioners who became taxfilers solely to receive Ontario Tax Credits tended to have low incomes. Third, the deduction of the first \$1,000 of pension income has served to exempt some pensioners from a tax liability.

AGE DISTRIBUTION OF TAXFILERS				TABLE 8-1
	Age	1976 (000)	1977 (000)	Per cent Change 1976/77 (%)
Number of Taxfilers	0-64	4,243	4,315	1.7
	65-69	238	240	0.8
	+70	431	440	2.1
	Total	4,912	4,995	1.7
Number of Taxpayers	0-64	3,125	3,170	1.4
	65-69	94	89	-5.3
	+70	84	89	6.0
	Total	3,303	3,348	1.3
Population*	0-64	7,525	7,611	1.1
	65-69	261	271	3.8
	+70	478	491	2.7
	Total	8,264	8,373	1.3

* Source: Ontario Statistics 1978, Ministry of Treasury and Economics.

As shown in Table 8-1, the number of pensioners filing a tax return increased by 1.7 per cent, in a year when the population of pensioner age increased by 3.1 per cent. The relative decrease in the number of pensioners taxes would seem to be attributable to the desire of both levels of governments to place more disposable income

in the hands of the lower income classes where the majority of pensioners are concentrated (see Table 8-2).

INCOME DISTRIBUTION OF PENSIONERS				TABLE 8-2		
Income Class	Number of Pensioners	Per cent of Total	Pensioners as a % of all tax-filers in Income Class	Number of Pensioners	Per cent of Total	Pensioners as a % of all tax-filers in Income Class
	(000)	(%)	(%)	(000)	(%)	(%)
Under 5	400	59.8	25.2	393	57.8	25.8
5 - 10	163	24.4	13.1	165	24.2	14.0
10 - 12	29	4.3	6.8	33	4.8	8.0
12 - 15	28	4.2	4.9	31	4.6	5.7
15 - 20	22	3.3	3.7	24	3.5	3.4
20 - 25	10	1.5	4.0	13	1.8	3.9
25 - 35	10	1.5	6.3	10	1.5	4.9
35 - 50	5	0.7	9.8	6	0.8	9.0
50+	4	0.6	12.1	5	0.8	13.9
TOTAL	669	100.0	13.6	680	100.0	13.6

Pensioners in the under \$5,000 income class are generally those having pensions, such as CPP, OAS, and private superannuation plans, as their sole source of income. In the higher income ranges, the income sources widen to include income from capital gains, investment, and employment. Table 8-2 indicates a slight trend towards increasing incomes for pensioners in general, as evidenced by the 1.6 per cent decline in the number of pensioners in the under \$5,000 class while all other income classes registered increases in the number of pensioners.

INCOME SOURCES

Pensioners, as illustrated in Table 8-3, appear, on average, not to be as financially disadvantaged as generally considered. It should also be noted that since GIS and GAINS receipts are exempt from tax and, therefore, are not reported on tax returns, the average income figure is an underestimate. There are only three areas where they are earning considerably less than the average of all taxfilers: employment, self-employment, and UIC benefits. The low earnings from employment and self-employment are not surprising, given that many pensioners who

continue their employment after pension age, often do so on a part-time basis. With less time worked, earnings are proportionately reduced.

AVERAGE INCOME OF PENSIONERS

TABLE 8-3

Income Source	1976			1977		
	Pen- sioners	All Tax- filers	Pensioners as a % of all taxfilers	Pen- sioners	All Tax- filers	Pensioners as a % of all taxfilers
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Employment earnings	6,378	10,173	62.7	6,835	11,069	61.7
Self-employment earnings	3,733	6,109	61.1	4,235	6,236	67.9
Rental Income	1,618	692	233.8	1,540	488	315.6
UIC Benefits	503	1,204	41.8	619	1,315	47.1
OAS Benefits	1,561	1,558	100.2	1,670	1,669	100.1
Private Pension	2,678	2,805	95.5	2,842	3,128	90.9
CPP Benefits	857	925	92.6	1,010	1,058	95.5
Investment Income	2,857	1,593	179.3	3,146	1,698	185.3
Capital gains	727	1,006	72.3	1,136	1,248	91.0
Other Income	1,079	835	129.2	1,500	1,130	132.7
ALL INCOME	6,432	10,255	62.7	6,862	11,080	61.9

Although the average UIC claim rose from \$503 in 1976 to \$619 in 1977, the number of pensioners eligible for these benefits decreased by 45.7 per cent. This, in turn, is reflected by the 33.2 per cent decrease in total UIC benefits paid to pensioners. Prior to 1976, people between 65 and 70 years of age were eligible for UIC benefits if they were not receiving Canada Pension Plan benefits. However, in 1976, amendments were legislated so that people over 65 years of age were no longer eligible only for the standard three-week retirement benefit. The limiting of benefits to a three-week period is seen as a strong incentive to direct people to the Canada Pension Plan rather than allow them to collect slightly higher benefits from UIC upon retiring.

Tables 8-4 to 8-10 illustrate the distribution of income from various sources, as reported by pensioners.

EMPLOYMENT INCOME				TABLE 8-4		
1976				1977		
Income Class	Number of Pensioners	Per cent of Total	Pensioners reporting employment earnings as a % of total pensioners in income class	Number of Pensioners	Per cent of Total	Pensioners reporting employment earnings as a % of total pensioners in income class
(\$000)	(000)	(%)	(%)	(000)	(%)	(%)
Under 5	14.8	15.3	3.7	11.7	13.3	3.0
5 - 10	33.6	34.8	20.7	29.7	33.8	18.0
10 - 12	11.9	12.3	41.6	10.3	11.8	31.4
12 - 15	12.9	13.3	46.4	12.0	13.6	38.4
15 - 20	10.7	11.1	49.2	9.9	11.2	40.9
20 - 25	4.3	4.5	43.4	5.8	6.6	46.2
25 - 35	4.5	4.6	46.6	4.1	4.6	39.4
35 - 50	2.0	2.1	44.1	2.2	2.5	38.9
50+	2.0	2.1	47.8	2.2	2.5	42.0
TOTAL	96.6	100.0	14.4	87.9	100.0	12.9

As shown in Table 8-4, the number of pensioners reporting employment income decreased by 9.0 per cent from 1976 to 1977. Their total employment income for the same period fell by 2.5 per cent. Thus, while fewer pensioner taxfilers had employment income, their average income was higher.

Labour force participation rate figures suggest that pensioners are relying on income from sources other than employment. The participation rate for persons over 65 years of age dropped from 10.2 per cent to 9.5 per cent between 1976 and 1977. During the same time period, the labour force participation rate for all ages in Ontario increased from 64.0 per cent to 64.4 per cent.¹

¹Ontario Statistics 1978, Ministry of Treasury & Economics.

Between 1976 and 1977, the income distribution of pensioners reporting employment earnings shifted upwards. In 1976, 50.1 per cent of pensioners reporting employment earnings were in the under \$10,000 income range. By 1977, this proportion had dropped to 47.1 per cent. This trend was characteristic of employment earnings reported by all taxfilers, and not just pensioners.

UIC BENEFITS

TABLE 8-5

1976				1977		
Income Class (\$000)	Number of Pensioners (000)	Per cent of Total (%)	Pensioners reporting UIC benefits as a % of total pensioners in income class (%)	Number of Pensioners (000)	Per cent of Total (%)	Pensioners reporting UIC benefits as a % of total pensioners in income class (%)
Under 5	6.3	16.6	1.6	4.1	19.9	1.0
5 - 10	13.1	34.4	8.0	5.6	27.1	3.4
10 - 12	4.5	11.8	15.7	2.8	13.5	8.5
12 - 15	6.2	16.3	22.4	3.2	15.5	10.4
15 - 20	4.4	11.6	20.3	2.0	9.7	8.6
20 - 25	1.6	4.1	15.6	1.2	5.8	9.4
25 - 35	1.3	3.3	13.2	1.1	5.3	10.6
35 - 50	0.5	1.3	11.1	0.4	1.9	6.9
50+	0.2	0.5	5.0	0.1	0.5	2.1
TOTAL	38.0	100.0	5.7	20.6	100.0	3.0

In Table 8-5, the decrease in the number of pensioners reporting UIC benefits, as previously mentioned, can be clearly seen. Also reflected in the table is the movement in the income distribution for pensioners. The percentage of claimants in the over \$10,000 income range grew from 49 per cent in 1976 to 53 per cent in 1977.

OAS BENEFITS

TABLE 8-6

1976				1977		
Income Class	Number of Pensioners	Per cent of Total	Pensioners reporting OAS benefits as a per cent of total pensioners in- come class	Number of Pensioners	Per cent of Total	Pensioners reporting OAS benefits as a per cent of total pensioners in- come class
(\$000)	(000)	(%)	(%)	(000)	(%)	(%)
Under 5	383.7	59.4	96.0	372.6	57.4	94.7
5 - 10	159.4	25.2	97.9	160.1	24.7	97.1
10 - 12	28.0	4.3	98.2	31.6	4.9	96.0
12 - 15	26.0	4.0	94.0	29.0	4.5	93.2
15 - 20	21.2	3.3	97.4	23.5	3.6	97.2
20 - 25	9.7	1.5	97.5	11.9	1.8	94.7
25 - 35	9.1	1.4	94.2	10.1	1.6	97.6
35 - 50	4.4	0.7	97.8	5.6	0.9	97.0
50+	4.0	0.6	96.1	5.0	0.8	96.2
TOTAL	645.4	100.0	96.5	649.3	100.0	95.5

As expected, Table 8-6 shows that most taxfilers over 65 years of age receive Old Age Security benefits. The proportion of pensioner taxfilers reporting income from OAS declined from 96.5 per cent in 1976 to 95.5 per cent in 1977. The slight decline in the number of pensioner taxfilers reporting OAS benefits was most likely a result of a larger increase in pensioners unable to meet the residency requirements over the increase in those eligible for OAS.

PRIVATE PENSION INCOME

TABLE 8-7

1976				1977		
Income Class	Number of Pensioners	Per cent of Total	Pensioners reporting private pension income as a per cent of total pensioners in income class	Number of Pensioners	Per cent of Total	Pensioners reporting private pension income as a per cent of total pensioners in income class
(\$000)	(000)	(%)	(%)	(000)	(%)	(%)
Under 5	85.6	36.1	21.4	82.2	33.7	20.9
5 - 10	95.4	40.2	58.6	94.0	38.6	57.0
10 - 12	16.6	7.0	58.0	21.1	8.7	64.1
12 - 15	15.5	6.5	55.9	18.5	7.6	59.5
15 - 20	11.3	4.8	52.0	12.3	5.1	51.1
20 - 25	4.8	2.0	48.4	5.5	2.2	43.6
25 - 30	4.5	1.9	46.9	5.8	2.4	56.1
35 - 50	2.0	0.9	45.0	2.4	1.0	41.9
50+	1.6	0.7	38.6	2.1	0.9	40.2
TOTAL	237.3	100.0	35.5	243.9	100.0	35.9

The trend towards an increased incidence of private pension income in recent years seems to have stabilized, as evidenced by Table 8-7. Pensioner taxfilers reporting private pension income increased by 2.8 per cent, which is only slightly greater than the increase in the overall pensioner population. As with other income sources, the distribution of private pension income indicates a general upward shift. The over \$10,000 income range contained 23.7 per cent of pensioners reporting private pension income in 1976. The following year pensioners in this income range accounted for 27.7 per cent of private pension income.

CPP BENEFITS

TABLE 8-8

1976				1977		
Income Class	Number of Pensioners	Per cent of Total	Pensioners reporting CPP benefits as a per cent of total pensioners in income class	Number of Pensioners	Per cent of Total	Pensioners reporting CPP benefits as a per cent of total pensioners in income class
(\$000)	(000)	(%)	(%)	(000)	(%)	(%)
Under 5	130.4	42.4	32.6	135.5	41.5	34.5
5 - 10	103.0	33.5	63.3	105.9	32.4	64.2
10 - 12	20.1	6.5	70.4	23.7	7.3	72.0
12 - 15	20.5	6.7	74.0	21.7	6.7	69.8
15 - 20	15.3	5.0	70.5	17.1	5.2	71.0
20 - 25	6.5	2.1	65.3	8.6	2.6	68.7
25 - 35	6.4	2.1	66.6	7.3	2.2	70.8
35 - 50	2.9	0.9	64.6	3.7	1.1	64.2
50+	2.3	0.7	54.7	2.9	0.9	57.0
TOTAL	307.4	100.0	46.0	326.6	100.0	48.0

Canada Pension Plan benefits have continued to play an increasingly significant role in the income structure of the pensioners of Ontario. The number of pensioners reporting CPP benefits increased by 6.3 per cent with the average benefit paid increasing by 17.9 per cent. Although the plan finally matured in 1976, with full benefits available for those eligible in that year, many pensioners were still ineligible for full benefits, not having contributed for the full 120 month minimum contribution period. Thus many pensioners found it advantageous to work and maintain contributions until they could collect for full benefits.

The increase in average CPP benefits also results from three other factors: an increase in the maximum pensionable earnings (from \$8,300 in 1976 to \$9,300 in 1977), indexing of CPP benefits, and inflationary increases in wages and salaries (which led to a higher average earnings ratio and therefore an increase in benefits).

Average CPP benefits reported by pensioners continued to be lower than the value reported by all beneficiaries. This is due to the fact that, in 1977, disability pension payments and survivor's benefits received by persons under 65 years of age continued to exceed the retirement pension payments reported only by persons over 65 years of age.

INVESTMENT INCOME

TABLE 8-9

1976				1977		
Income Class	Number of Pensioners	Per cent of Total	Pensioners reporting investment income as a per cent of total pensioners in income class	Number of Pensioners	Per cent of Total	Pensioners reporting investment income as a per cent of total pensioners in income class
(\$000)	(000)	(%)	(%)	(000)	(%)	(%)
Under 5	255.8	50.8	64.0	239.5	47.8	60.9
5 - 10	149.1	29.6	91.6	146.4	29.2	88.7
10 - 12	26.6	5.3	93.2	30.6	6.1	92.9
12 - 15	24.2	4.8	87.3	29.4	5.9	94.7
15 - 20	20.6	4.1	94.7	22.6	4.5	93.7
20 - 25	9.7	1.9	97.0	12.0	2.3	95.6
25 - 35	9.5	1.9	98.2	10.2	2.0	98.8
35 - 50	4.5	0.9	99.2	5.7	1.1	98.4
50+	4.1	0.8	99.3	5.1	1.0	99.1
TOTAL	504.0	100.0	75.3	501.5	100.0	73.7

The number of pensioners reporting investment income between 1976 and 1977 decreased by 0.5 per cent, with the decrease coming from the under \$10,000 income level. Above this income range, as indicated in Table 8-9, the number of pensioners reporting investment income showed modest increases, suggesting an upward shift in income distribution again.

As mentioned in Chapter 5, declining interest rates and increasing inflationary expectations may have diverted some lower income pensioners from saving into spending.

A prominent feature of Table 8-9 is the high proportion in all income classes of pensioners reporting investment income. This can be explained by several factors. First, pensioners generally have bank accounts which generate interest income. Second, many taxfiling pensioners report bond interest, most likely from Canada Savings Bonds that were purchased to provide added income for retirement. Similarly many pensioners invested in trusts, annuities and Guaranteed Income Certificates to provide a steady income flow. Finally, some pensioners receive mortgage interest, often as a result of having provided mortgage funds for their children.

As expected, the higher the income class, the greater the proportion of pensioners who report investment income. Pensioners in the higher income classes were presumably there before retirement and with greater disposable incomes were able to invest to a greater degree. This also enables the high-income taxfiling pensioner to enter into the stock market, both for dividend-yielding stocks and the higher risk capital gains stocks.

INCOME FROM CAPITAL GAINS						TABLE 8-10
1976				1977		
Income Class	Number of Pensioners	Per cent of Total	Pensioners reporting income from capital gains as a per cent of total pensioners in income class	Number of Pensioners	Per cent of Total	Pensioners reporting income from capital gains as a per cent of total pensioners in income class
(\$000)	(000)	(%)	(%)	(000)	(%)	(%)
Under 5	3.4	11.2	0.8	4.0	11.9	1.0
5 - 10	7.9	26.2	4.8	7.6	22.6	4.6
10 - 12	2.5	8.4	8.9	3.1	9.2	9.4
12 - 15	3.4	11.4	12.4	4.1	12.2	13.2
15 - 20	3.7	12.4	17.2	3.8	11.3	15.8
20 - 25	2.3	7.7	23.3	3.1	9.1	24.4
25 - 35	2.9	9.8	30.6	2.7	8.0	25.9
35 - 50	1.8	5.9	39.6	2.3	7.0	40.6
50+	2.1	6.9	50.1	2.9	8.6	56.2
TOTAL	30.1	100.0	4.5	33.6	100.0	4.9

Capital gains income, as shown in Table 8-10, was reported by 11.5 per cent more taxfiling pensioners in 1977 than in 1976, with average capital gains income up 56.3 per cent to \$1,136. This contrasts with a 4.3 per cent increase in taxfilers under 65 years of age reporting capital gains income. The average capital gains income for this age group rose by 19.2 per cent to \$1,278. The relatively higher capital gains made by pensioners may be a result of improved market conditions that encouraged pensioners to dispose of assets purchased many years ago at what are now regarded as bargain prices.

The general upward shift in income distribution of capital gains recipients is not as strongly evident as it had been for other income sources. This could be, in part, due to the differing and uncertain nature of capital gains income with respect to other income sources. For example, a pensioner who sells a recreational property, as opposed to a principal residence, must report any taxable gains on the sale as income.

TAX PAYABLE

Table 8-11 indicates that the tax burden on pensioners was further reduced between 1976 and 1977. The average total tax payable of pensioners increased less than the average total tax payable of taxfilers under 65 years of age from 1976 to 1977.

TAX PAYABLE BY TAXFILERS				TABLE 8-11
	Age	1976	1977	Per Cent Change
Number of taxfilers (000)	0-65	4,243	4,315	1.7
	65+	669	680	1.6
	Total	4,912	4,995	1.7
Average income per tax-filer (\$)	0-65	10,858	11,722	8.0
	65+	6,432	6,862	6.7
	Total	10,255	11,080	8.0
Average taxable income per taxfiler (\$)	0-65	7,016	7,538	7.4
	65+	2,496	2,678	7.3
	Total	6,401	6,876	7.4
Average total tax per taxfiler (\$)	0-65	1,798	1,902	5.8
	65+	617	646	4.7
	Total	1,637	1,731	5.7
Total tax payable (\$ million)	0-65	7,628	8,205	7.6
	65+	412	440	6.8
	Total	8,040	8,645	7.5

This continuing trend was the result of the following 1977 tax system adjustments introduced in order to put more disposable income in the hands of lower income taxfilers. First, the Ontario tax reduction, implemented in 1975, was enriched in 1977 so that taxpayers with taxable income equal to or less than \$1,680 were not liable for Ontario income tax. Second, the tax brackets and exemptions were further indexed at a 8.6 per cent rate. Finally, taxable capital gains on Canadian investments were included in the \$1,000 interest and dividend income deduction. As there were proportionately more pensioner than non-pensioner taxfilers in the under \$10,000 income range, pensioners were able to benefit more than others from the new tax measures.

CHAPTER 9: THE ONTARIO TAX CREDIT SYSTEM

As part of the Government of Ontario's commitment to tax reform, the Province introduced a refundable property tax credit system in 1972. The basic function of this program was to reduce property tax burdens. The system was expanded in later years, however, to embrace other taxes and thereby become a more effective measure to increase the progressive nature of taxes in Ontario.

From 1976 to 1977 the Ontario tax credit system was basically unchanged. Table 9-1 presents the formula that applied in those years. An amendment was introduced for the 1976 taxation year that eliminated the taxable income offset for persons with taxable income below \$1,540. For the 1977 taxation year, the taxable income level below which the offset was eliminated was raised to \$1,680.

ONTARIO TAX CREDIT STRUCTURE: 1976-77 TABLE 9-1

Property Tax Credit	+	Sales Tax Credit	+	Pensioner Tax Credit	-	Tax. Income Offset	Max. Credit
\$180+10 per cent of occupancy cost		1 per cent of personal exemptions		\$110		2 per cent	\$500

If occupancy cost is less than the basic credit of \$180, the basic credit is set equal to occupancy cost.

VALUE OF TAX CREDITS IN ONTARIO TABLE 9-2

	Total Taxfilers	Total Credit Recipients	Total Value of Credits	Average Value of Credits
	(000)	(000)	(\$M)	(\$)
1975	4,786	3,013	407	135
1976	4,912	2,986	420	141
1977	4,995	2,967	432	145

Table 9-2 shows the value of tax credits in Ontario. The total value of credits has risen each year since 1972, but, since 1974, at a much slower rate than in the earlier years of the program when additional credits were introduced. The stable nature of the tax credit system from 1974 to 1977 resulted in relatively slow growth

in the average value of credits. It rose from \$135 in 1975 to \$145 in 1977, a 7.4 per cent increase.

Table 9-3 presents a breakdown of the distribution of Ontario tax credits by income class. The decline in recipients appears to be limited to the income classes below \$15,000, while there were increases in recipients for income classes above \$15,000. Partially explaining this trend was the upward movement of incomes which results in more tax credit recipients in higher income ranges and fewer

DISTRIBUTION OF ONTARIO TAX CREDITS BY INCOME CLASS

TABLE 9-3

Income Class	Number of Recipients		Total		Average	
	1976	1977	1976	1977	1976	1977
	(000)		(\$M)		(\$)	
Under 5	1,154	1,139	186	189	162	166
5 - 10	683	638	130	127	191	199
10 - 12	286	257	37	37	130	145
12 - 15	433	404	40	43	92	106
15 - 20	363	442	22	31	62	69
20 - 25	56	87	3	4	51	51
TOTAL	2,986	2,967	419	432	141	145

in lower income ranges. It may be noted that since many taxfilers in the under \$5,000 income class have no occupancy cost, the credit they receive is lower than for those in the middle-income ranges. Since lower income taxfilers in many cases cannot afford to own a house, and therefore rent, they receive a lower property tax credit.

Table 9-3 further demonstrates that while the number of recipients claiming tax credits in the lower income classes decreased, the total value of tax credits increased.

The increase in the average value of tax credits experienced by the lower income classes was the result of the indexed exemptions increasing at a faster rate than their incomes. Thus, the resultant decline in the taxable income induced a smaller taxable income offset for the lower classes plus a higher sales tax credit. In the middle-income regions, the increase may be attributable to higher occupancy costs.

Table 9-4 shows the distribution of Ontario tax credits by value of credit.

DISTRIBUTION OF ONTARIO TAX CREDITS BY VALUE OF CREDIT

TABLE 9-4

Value of Credit	Number of Recipients	
	1976	1977
(\$)		
0 - 25	527	544
25 - 50	322	300
50 - 75	236	232
75 - 100	246	230
100 - 125	249	238
125 - 150	268	263
150 - 175	178	173
175 - 200	140	134
200 - 225	135	123
225 - 250	145	154
250 - 275	113	117
275 - 300	69	84
300 - 350	128	122
350 - 400	203	226
400 - 500	24	43

CHAPTER 10: A COMPARISON OF NORTHERN AND SOUTHERN ONTARIO

In recognition of the economic differences between Northern and Southern Ontario this chapter analyzes the respective tax burdens of the two areas.

For the purposes of this report, Northern Ontario, as a region, includes the Regional Municipality of Sudbury plus the following Districts:

Algoma	Manitoulin
Cochrane	Nipissing
Kenora	Parry Sound
Rainy River	
Sudbury	
Timiskaming	
Thunder Bay	

Since Northern Ontario is somewhat isolated from the most economically active parts of the province, many have felt that additional tax reductions would be in order as compensation for the higher costs Northern Ontarians may incur in day-to-day living.

Accumulated tax data on the North, however, does not seem to support this position. Indeed, there are indications that while Northern Ontarians may suffer to a certain degree as a result of high transportation costs, they have certain compensations which Southern Ontarians do not have. In 1977, two major compensations to municipalities and residents of the North included the Special Support Grants,¹ which are an additional 18 per cent over the General Support Grants, and a flat \$10 registration fee for all passenger vehicles. In addition, Northern Ontarians seem to have significantly lower occupancy costs.

As Table 10-1 shows, Northern Ontario taxfilers represented about 8.8 per cent of the taxfilers in Ontario in 1977. Although the proportion of taxfilers and taxpayers has remained quite stable in the 1973-77 period, it is interesting to note that there has been a slightly greater proportionate growth in the number of taxfilers in the North than in the South. This may be attributable to increasing activity in the North in the last few years.

¹Report of the Provincial-Municipal Grants Reform Committee, Vol. II, p. 145

DISTRIBUTION OF ONTARIO'S TAXFILING
POPULATION BY REGION

TABLE 10-1

		1973	1977	Per Cent Change
Number of Taxfilers (000)	North	375	438	16.8
	South	4,052	4,557	12.5
	Total	4,427	4,995	12.8
Number of Taxpayers (000)	North	279	286	2.6
	South	3,169	3,062	-3.4
	Total	3,448	3,348	-2.9
Taxfilers as a Per cent of total (%)	North	8.5	8.8	
	South	91.5	91.2	
Taxpayers as a Per cent of total taxfilers (%)	North	6.3	5.7	
	South	71.6	61.3	
	Total	77.9	67.0	

As Table 10-2 shows, the largest absolute growth in taxfilers in the North took place in the \$15,000 to \$35,000 income range. This may be accounted for by the growing predominance of employment income.

NUMBER OF TAXFILERS BY REGION AND INCOME CLASS

TABLE 10-2

Income Class	North		South		North as per cent South	
	1976	1977	1976	1977	1976	1977
(\$000)	(000)		(000)		(%)	
Under 5	144.2	142.2	1443.8	1379.4	10.0	10.3
5 - 10	86.6	87.8	1160.3	1092.5	7.5	8.0
10 - 12	28.8	30.5	398.4	381.1	7.2	8.0
12 - 15	53.6	43.8	516.1	499.1	10.4	8.8
15 - 20	63.4	76.4	526.8	626.1	12.0	12.2
20 - 25	25.8	34.6	222.2	289.7	11.6	11.9
25 - 35	11.5	17.4	147.2	193.3	7.8	9.0
35 - 50	2.2	3.3	48.5	60.7	4.6	5.5
50 - 75	0.9	1.2	19.7	23.2	4.7	5.3
75+	0.5	0.6	11.2	12.2	4.1	4.6
TOTAL	417.6	437.8	4494.2	4557.6	9.3	9.6

Notably, the North shows a dearth of higher income (\$35,000 or greater) taxfilers. This is likely due to a deficiency of taxfilers whose primary income source is professional or investment income.

Table 10-3 shows that between 1976 and 1977, the average credit per recipient increased in both the North and the South. It is interesting to note that a greater proportion of taxfilers in the South claim tax credits than in the North. This is due largely to higher occupancy costs in Southern Ontario which would increase the likelihood of a Southern taxfiler claiming a credit. Table 10-3 also shows that credit recipients as a per cent of taxfilers decreased overall in both the North and the South, although certain income ranges showed modest increases.

DISTRIBUTION OF TAX CREDITS

TABLE 10-3

Income Class	1976			1977		
	Number of Credit Recipients	Average Credit Per Recipient	Credit Recipients as a % of Taxfilers	Number of Credit Recipients	Average Credit Per Recipient	Credit Recipients as a % of Taxfilers
(\$000)	(000)	(\$)	(%)	(000)	(\$)	(%)
<u>NORTH</u>						
Under 5	106.4	155	73.8	107.1	154	75.3
5 - 10	45.5	180	52.6	47.2	191	53.7
10 - 12	16.4	123	56.9	18.7	138	61.4
12 - 15	36.7	81	68.5	29.0	93	66.2
15 - 20	32.3	51	51.0	41.4	58	54.2
20 - 25	3.7	36	14.3	6.5	44	18.8
25 - 35	0.5	53	4.6	0.4	71	2.1
35 - 50	*	151	0.2	*	170	0.7
50+	0.0	0	0.0	*	87	0.6
TOTAL	241.6	130	57.9	250.3	134	57.2
<u>SOUTH</u>						
Under 5	1048.0	162	72.6	1031.6	167	74.8
5 - 10	637.8	191	55.0	590.7	200	54.1
10 - 12	269.3	131	67.6	238.1	145	62.5
12 - 15	396.1	93	76.8	374.9	107	75.1
15 - 20	330.4	63	62.7	400.1	70	63.9
20 - 25	52.6	52	23.7	80.0	52	27.6
25 - 35	8.7	69	5.9	13.8	63	7.1
35 - 50	1.0	101	2.0	1.3	91	2.1
50+	0.3	230	0.9	0.2	159	0.7
TOTAL	2744.1	141	61.1	2730.7	146	59.9

* less than 100

Table 10-4 shows the average occupancy costs for the period 1973-77, by income class, for Northern and Southern Ontario. As may be expected, occupancy costs have been rising fairly steadily in both regions. It is interesting to note that the average occupancy cost in Southern Ontario was, on average, 37 per cent higher than Northern Ontario for the period under examination. This is felt to be a reflection of lower property taxes and land values in the North.

AVERAGE OCCUPANCY COST					TABLE 10-4
NORTH					
Income Class	1973	1974	1975	1976	1977
(\$000)					
Under 5	130	124	125	132	138
5 - 10	236	249	277	281	313
10 - 12	289	296	321	364	391
12 - 15	327	346	364	388	448
15 - 20	408	423	436	458	509
20 - 25	596	542	650	628	679
25 - 35	754	551	1194	787	894
35 - 50	660	621	594	1058	1320
50 - 75	519	669	0	0	383
75+	0	0	0	0	2179
TOTAL	226	231	249	268	303
SOUTH					
Under 5	178	162	159	144	184
5 - 10	334	335	357	385	402
10 - 12	408	408	429	461	494
12 - 15	462	465	482	517	546
15 - 20	558	571	593	627	659
20 - 25	711	776	794	844	877
25 - 35	961	976	1087	1099	1111
35 - 50	1277	920	820	1146	1367
50 - 75	1840	803	862	1292	1711
75+	1987	1763	890	2278	1432
TOTAL	324	315	334	372	403

Since occupancy costs are a major component of living expenses, the lower occupancy costs of the North represent a major savings to those taxfilers. Combined with lower car registration fees, these savings should help to offset much of the effect of higher transportation costs as they affect the cost of goods and services in the North.

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